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SHOE OF CHINESE SYCEE SILVER

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# EASTERN EXCHANGE CURRENCY AND FINANCE

BY

WILLIAM F. SPALDING

FELLOW AND MEMBER OF THE COUNCIL OF THE INSTITUTE OF BANKERS, LONDON ;  
FELLOW OF THE ROYAL ECONOMIC SOCIETY ; LECTURER AND EXAMINER IN FOREIGN  
EXCHANGE TO THE CITY OF LONDON COLLEGE AND VARIOUS OTHER PUBLIC BODIES ;  
HON. MODERATOR IN BANKING AND CURRENCY TO THE LONDON CHAMBER OF  
COMMERCE

AUTHOR OF "FOREIGN EXCHANGE AND FOREIGN BILLS," "A PRIMER OF FOREIGN  
EXCHANGE," "THE FUNCTIONS OF MONEY," "BANKERS' CREDITS," "THE LONDON  
MONEY MARKET," "BANKING AND INTERNATIONAL EXCHANGE," AND OF THE  
"BRITISH BANKING" ARTICLE IN THE "ENCYCLOPÆDIA BRITANNICA" (12TH  
EDITION)

FOURTH EDITION

LONDON

SIR ISAAC PITMAN & SONS, LTD.  
PARKER STREET, KINGSWAY, W.C.2  
BATH, MELBOURNE, TORONTO, NEW YORK

1924

*First Impression* - - *October, 1917*  
*Second* " - - *January, 1918*  
*Third* " - - *September, 1918*  
*Fourth* " - - *July, 1919*  
*Fifth* " - - *May, 1920*  
*Sixth* " - - *May, 1924*

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## PREFACE TO FOURTH EDITION

INDIA, China, and the Far East have had their currency and exchange troubles like the rest of the world. When the previous edition of this book appeared the peak of inflation had almost been reached. The East had slavishly followed the West along that ruinous course ; she has since had to emulate the West in its efforts to pass over the pitfalls on the road to deflation.

India and one or two other Eastern nations have found defects in a " managed " currency. Japan has had a terrible earthquake to impede her progress. China moves slowly towards monetary reform ; yet despite the difficulties with which the country is beset through civil strife and faction, she seems at last to be making her way towards a national dollar currency. " Silver " money that is silver is still as great a power as ever in that land.

In order to keep the book up to date it has been necessary to re-write a considerable portion. A large amount of new material has also been added, and in this connection the author has to acknowledge the valuable assistance he has received from many readers in many lands.

W. F. SPALDING.

## PREFACE TO THIRD EDITION

A COMPARATIVELY short space of time has elapsed since the second edition (fourth impression) of this work was published, but during that period the variations in the silver exchanges have been kaleidoscopic. The end of the devastating war of 1914-1918 finds the currency of the world literally in the melting pot. Gold in most countries has disappeared altogether, and silver bids fair to become almost as scarce. The demand for the white metal has caused its price to rise to undreamt of levels, and exchange has climbed painfully after it. In the circumstances, the nations of the East have not been slow to seize the opportunity to make an illicit profit by melting their silver coins and smuggling the resultant bullion out of the country.

The Governments in many countries have aggravated the evil by making successive issues of paper money; others have reduced the proportion of silver to alloy contained in their subsidiary coins, and nearly everywhere is seen the inexorable working of Gresham's law—"bad" money driving the good money out of circulation.

Just what steps have been taken by the various governments to deal with the currency problems that have arisen are fully described in this new edition, and the author has taken the opportunity to bring the various chapters up-to-date, to incorporate fresh material, and to deal fully with the history of silver and exchange during the war years. The task has been made the more pleasant by the many helpful suggestions received from unknown correspondents in India, China, Indo-China, Java, Abyssinia and Canada, to all of whom the author's best thanks are conveyed.

W. F. SPALDING.

*May, 1920.*

## PREFACE TO SECOND EDITION

THE favourable reception accorded to this book by the public has necessitated a second edition ; and, bearing in mind the absorbing interest now taken in the London and American silver markets by a number of people, I have taken the opportunity to summarise the principal events in the silver world during the year 1917 and the greater part of 1918. Indian currency affairs also receive special attention : they are closely allied with silver.

The ravages caused by war and the world-wide rise in prices have created a demand for subsidiary currency the like of which has never before been witnessed. Nation after nation has been obliged to add to its circulating medium ; some have filled the void in the circulation by further issues of metallic currency ; nearly all have had recourse to the printing press in order to meet the demand. Just what steps Eastern nations will take to put their currency house in order after the war remains to be seen, but their methods of dealing with the currency emergencies of the present day are instructive ; and wherever up-to-date details are available, they have been incorporated in this new edition. Changes, however, come quickly ; and even as we write it is reported that China is once again in the currency field with proposals for the introduction of a gold currency into that country. That she should make the suggestion at a time when gold has disappeared from circulation in so many European countries is somewhat peculiar ; but if we take it as evidence that the Chinese have at last realised the necessity for simplifying the existing multifarious media of exchange in China, the idea is all to the good, and we hope it will soon take definite shape.

W. F. SPALDING.

LONDON.  
*September, 1918.*



## PREFACE

THIS work has been written amidst many interruptions and distractions, but if it meet with the same kindly reception at the hands of the critics as that accorded to my previous book—*Foreign Exchange and Foreign Bills*—I shall feel more than satisfied. So far as I have been able to ascertain, there exists no treatise dealing entirely with the Eastern Exchanges; the present book is sent forth, therefore, in the hope that it may fill that gap in the literature of currency. Its preparation has called for a good deal of translation from foreign documents, and considerable searching into Government records, in which work I have been most ably assisted by representatives of the foreign governments concerned.

My very sincere thanks in this respect are due to Their Excellencies the French Ambassador, the Minister for the Netherlands, the Persian Minister, the Siamese Minister; to Kengo Mori, Esq., Financial Commissioner to the Imperial Japanese Government; to Monsieur de la Chaume of the Commission de Ravitaillement; and to the Consul-General for the United States of America.

To the Managers of the Bank of Japan, the Banque de l'Indo-Chine, the Imperial Bank of Persia, the Java Bank, and the International Banking Corporation, I am indebted for a whole host of facts concerning operations which have come under their notice. Last, but not least, I owe a deep debt of gratitude to the Managers of the London Branch of the Hongkong and Shanghai Banking Corporation for their valuable counsel and aid in the elucidation of the many difficult problems connected with the silver exchanges.

WILLIAM F. SPALDING.

LONDON,  
April, 1917.

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# EASTERN EXCHANGE CURRENCY AND FINANCE

## CHAPTER I

### MAINLY INTRODUCTORY

"FOOLS," says Pope in his "Essay on Criticism," "rush in where angels fear to tread"; and the writer is not sure whether in attempting this book on the Eastern Exchanges he is not laying himself open to the charge of essaying a work from which other writers more practical, more skilled, and more erudite would have recoiled. Be that as it may, it will, we think, be acknowledged that the need for a properly authenticated account of Eastern finance, currency, and exchange has long been an urgent one. There have, it is true, been many well-balanced articles written on various phases of the subject from time to time: some have been theoretical, some practical—more or less—and most of them have been, from the point of view of the average man, un-get-at-able—an ugly word, but it conveys the meaning in a nutshell. Now, magazine articles, scientific pamphlets, and encyclopaedic explanations, useful as they are to the research worker or the person of leisure, form no part of what might be called the desk stock-in-trade of the banker, the merchant, and the busy man of affairs. Financial and commercial men have no time for wading through old newspaper files or the bulky tomes of the general library, and the delegating of such work to office satellites has its drawbacks. Therefore,

when they seek for information it is essential that it should be in a form readily accessible.

Currency and exchange is a nasty subject to study and a still nastier one to write about, at least that is what some well-meaning people tell you; even Walter Bagehot said: "It's awful to read on the currency." But the author has endeavoured to let the reader down lightly, and has avoided as much of the unpalatable side as possible; and he ventures to hope that this book will not only meet the needs of the busy man, but will also go some way towards filling the void in the literature of currency. That seems rather a large expectation; but, after all, we are not here to affect modesty.

Now, a word or two about the aim and scope of the book.

In a work of this kind one has to cater for a very wide circle of readers, and it is not always easy to settle on a plan which will suit everybody; but while bearing in mind the special requirements of the commercial class, the author has also endeavoured to give due weight to the claims of the general reader.

In view of the growing importance of the gold exchange standard, it was thought advisable to devote a preliminary chapter to that currency system: so much depends upon a proper comprehension of the schemes in vogue in the East, that it is as well to get at least a general idea of the basis upon which many of them rest. With the exception of this digression on currency, it will be seen that the monetary affairs of each country are treated separately.

No man—whether he be a banker, financier, or exporter—cares to open up business relations with a foreign country without knowing something about its general economic position; and, bearing this in mind, a concise account is given in most cases of the area and population, the total debt of the country, and its amount per head of the population. The taxation and burden of taxes is also described; such details should give the reader a rough idea

of the spending capacity of the people. Then, exporters will desire to know to which territory their produce and manufactures are best shipped; and prospective importers will naturally require information on the produce and manufactures of the Eastern countries: to meet their needs we give tables of the principal exports and imports of the countries under survey, together with some account of the customs dues; and to enable both classes to judge whether the trade of a country is progressive or degressive, the figures, where obtainable, are given for a series of years. Needless to say, if more attention were paid to trade statistics in this country, there would be fewer losses arising from shipping goods to overstocked markets.

The nomenclature of the weights and measures and the coins of each country is given at the end of each section.

Stamp duties are occasionally altered, but, where in force, up-to-date details are given. Despite the fact that a slight knowledge of the law is said to be a dangerous thing, we have also ventured to give such parts of the law appertaining to bills of exchange as appeared to be of sufficient interest to warrant inclusion in this book.

But the most important subject with which we have to deal in connection with each country is, of course, the currency, under which generic term is included banking and exchange. The currency receives full attention, and the aim in regard to banking and exchange has not been so much to give the practice of one bank as to set out the everyday methods of banking in regard to the financing of imports and exports by means of bills of exchange and other similar credit instruments.

The principal function of all Eastern banks is, or should be, to finance imports and exports to and from the various foreign centres; and, although the system of credit under which each bank advances on the outward and inward shipments differs in detail, the basic principles are the same in all cases. The point to remember is that these Eastern banks and finance houses are not philanthropic

institutions: their business is to turn over their capital as rapidly and as profitably as possible in the interests of their shareholders, not to furnish long credit to firms of trifling resources, or to lock up money in doubtful enterprises. The financing of the foreign trade of any country of importance calls for large cash resources; and to enable a banker satisfactorily to cope with the constant stream of business offering, all that should be expected of him is that he should be able to provide adequate advances on goods during transit. Strictly speaking, on delivery of the shipment at port of destination, the exchange banker ought to be recouped for his outlay by payment by the consignee of the bills drawn against the consignment; all subsequent credit or finance should be a matter for the native banks, and that is what does happen, theoretically. In practice, the exchange bank is very often the controlling factor throughout—it acts in the dual capacity of home and native bank; and it is arranged that bills of exchange are drawn, say, from Great Britain, to include the time the goods are on the water, and the necessary period for discharge and delivery to the consignee, or the person to whom he has made sales. After that period has elapsed, the banker might reasonably expect to—what the French call *rentre dans ses fonds*, but not infrequently advances are carried for a much longer time, and in such cases the exchange bank is really exercising a function which should be carried out by native banks in the countries in question. Where there are no native banks to take over the credit, if needed, the exchange banks cannot very well help themselves; but to extend the period of credit where native banks are available is hardly compatible with prudent banking.

There is somewhat of a distinction between the export and import trade. The finance of imports into Great Britain or France, or any other of the great European centres, is on practically the same credit basis; but while in many Eastern countries there is no discount market,

and the banks have consequently to wait until maturity of the bills before they get their money, the financing of shipments to Europe is done with the knowledge that the bills of exchange can be remitted home by the first outgoing mail, presented for acceptance, and, when complete, can, if necessary, be sold under discount on, say, the London market. The banker is thus able to recoup himself for his advance much quicker than if no discount market were available.

The manner in which advances are made and the forms they take are matters to be considered under the headings of the several countries with which we shall have to deal, but, as we shall see, in actual practice they are all merely variations of two principal methods by means of which shippers in the Eastern trade obtain payment for their produce. In the one case, shipments are financed through the media of bills of exchange drawn direct on the consignee; in the other, the consignor receives payment for his goods against bills of exchange drawn under one or other of the credits opened with London or foreign bankers.

## CHAPTER II

### THE GOLD EXCHANGE STANDARD

THE master minds in Eastern countries have been endeavouring for many years past to evolve a system of currency capable of withstanding the violent fluctuations to which the currency units of those countries still adhering to the silver standard are constantly subject. Years ago, Western nations were faced with similar questions, and they solved the problem in a manner more or less satisfactory to themselves by the universal adoption of the gold standard. Oriental nations, however, are loath to discard their old currency theories, and the search for a system which would replace the silver standard with the minimum of disturbance to existing conditions has resulted in an expenditure of time and labour comparable only with the energy dissipated by the old alchemists in their pursuit of the transmutation of baser metals into gold. Yet there are some Eastern countries which have crossed the Rubicon and boldly adopted a currency system, which, if not entirely a gold standard, has at least a strong resemblance to it. The standard which is finding increasing support in the East is known as the gold exchange standard; and as we shall often have occasion to refer to it when dealing with those countries whose currency is based on the principles underlying that standard, it will save time perhaps if we devote a little study to this latest solution of the currency and exchange problem.

The alpha and omega of the gold exchange standard is the maintenance of the exchange value of a country's currency unit within certain fixed limits in relation to gold, all other aims being subordinated to that end. Gold need not necessarily be in circulation in the country; the medium

of exchange may be notes and/or token silver coins, which, being permanently established, are said to be kept at or near the gold parity with other countries by Government control or—as some prefer to call it—manipulation of the foreign exchanges.

It is claimed for this system that a country adhering to it is able to prevent or eliminate the constant fluctuations to which a silver currency is liable, and, *pari passu*, to remove the principal obstacle to foreign trade. Further, it has been proved that those states in which the gold exchange standard is in operation are able satisfactorily to gauge their internal currency requirements: the one state of affairs obviously is the concomitant of the other.

What has really been discovered is merely an extension of the Quantity Theory of Money. The quantity theory of money states, among other things, that the value of money varies inversely with its quantity. The gold exchange standard is worked on the assumption that the value of money is governed by the law of supply and demand; therefore, if one can so regulate the quantity of **token** coinage as to make it respond automatically to the demands of trade, half the battle is won. To do this it is essential that a Government should be able to expand and contract its currency as and when desirable. Contraction is only possible by withdrawing currency from circulation, and the manner in which this is accomplished under the gold exchange standard is by the Government's selling foreign exchange in the shape of bills of exchange or telegraphic transfers and retaining in its treasury the currency obtained from such sales of foreign exchange. The currency can be expanded by the simple expedient of returning this money to circulation or by additional coinage.

Possibly the gold exchange standard will be better understood if we compare it with the *étalon boiteux* (limping standard), which system is a relic of bimetallism, and is seen in those countries like France, in which gold and silver are full legal tender, but only the cheaper of the



two metals—silver—is excluded from free coinage. The effect of this suspension or restriction of coinage is to give the silver coins already in and not withdrawn from circulation a scarcity value, and so draw them up to a parity with gold. We say “restriction,” because it is found to be possible to put into circulation from time to time a limited amount of additional coinage without interfering in any way with the maintenance of the gold parity. The reason for this apparent anomaly is that the value of the silver coin resulting from its scarcity is higher than its actual bullion content, and by careful limitation of the silver coinage it is possible to maintain the par between the two metals, gold and silver.

Under the limping standard, it should be noticed, there is no undertaking on the part of the Government to redeem its silver coinage in gold, either in the country where the standard is in operation or abroad; in the absence of redeemability, it relies on its potential ability to limit the amount of the silver coin circulating, and it must be admitted that such limitation is often sufficient to ensure the maintenance of the gold parity. Yet, as we shall see, the system has its drawbacks. The gold exchange standard, while it also seeks to divorce the real value of the native coin from its bullion content, is, in practice, a system of partial redemption; partial, that is, because the Government does not give effect to the redemption in the country where the coins circulate, but issues orders, so to speak, for the delivery of gold from its gold reserves or other gold assets held abroad. There are several instances of this selling of exchange by various Governments to be seen in practice, and we shall examine the several methods when dealing with each country; but the point to notice here is that the selling operation is in effect a redemption of a portion of the currency by the Government at the legally enacted rate, and it is in this respect that the gold exchange standard differs principally from the limping standard, although some experts prefer to regard the

former system as a sort of limping standard with the added feature of partial redemption.

The limping standard requires gold to be in circulation in the country, but, as we have mentioned, this is not necessary with the gold exchange standard. In the former case, circumstances may, in fact do, arise in which the maintenance of parity will be dependent on continued exports of gold, that is to say, contraction of the currency will be secured by sending some of it out of the country; in the latter system, the silver currency received from the sale of foreign exchange, being retained by the Government, is just as effectively kept out of circulation as if the gold had been exported. Besides, the Government, having control of the quantity and value of the native coins, is consequently able to regulate them in such a way as to make them respond automatically to the trade demand. The limping standard has not this elasticity, since there is a danger of the baser currency becoming so redundant relatively to trade that, in course of time, gold disappears, and, when no more is forthcoming for export, the Government's ability to maintain the par of exchange with gold standard countries is at an end. It has no stock of international currency or claims to international currency to give in exchange for the over-valued internal currency, and is therefore powerless to influence the foreign exchanges in its favour, although it may in a last resort endeavour to give an artificial stability to its redundant currency by prohibiting the export of gold or by "pegging" the exchanges; both devices, as several countries have learnt to their cost since the war, are unsatisfactory and uneconomical in the extreme.

With the gold exchange standard this danger is obviated: the Government, it is true, does to a certain extent aim at giving a scarcity value to its token currency, but then it also takes upon itself the liability to maintain the value of its token coins at par with gold, and does not entirely rely upon custom and scarcity to give them their value.

This means that the Government of the country has constituted itself the watch-dog of the foreign exchanges and, having turned itself into a sort of universal provider of foreign remittances, holds itself in readiness to sell drafts in exchange for the equivalent local currency, or, in the reverse case, will, on application, release local currency in exchange for foreign currency (gold) whenever the demands of trade make it desirable to do so.

In unravelling this system, the currency experts do not claim to have made any remarkable discovery, and when charged with foisting new monetary devices upon Eastern nations they may be forgiven if, like the *blasé* King of Judea, they are tempted to exclaim, "There is no new thing under the sun," for the words are as true of currency as of a good many other apparently novel devices. The gold exchange standard, indeed, is no exception to the rule; we find that the great Grecian philosopher, Plato, had knowledge of a system closely allied to it. Curiously enough, too, Plato's words were quoted by the Indian Financial Commissioners in their Final Report of 24th February, 1914; they are taken from *Plato's Laws*, Book V (page 742), and if the reader will examine the quotation he will perceive the striking resemblance it bears to the gold exchange standard of the present day—

"[The citizens of the ideal state] will require a currency for the purpose of everyday exchange: this is practically indispensable for workers of all kinds, and for such purposes as the payment of wages to wage-earners. To meet these requirements, the citizens will possess a currency which will pass for value among themselves, but will not be accepted outside their own boundaries. But a stock of some currency common to the Hellenic world generally [i.e. of international currency] will at all times be kept by the State for military expeditions or official missions abroad such as embassies, and for any other necessary purposes of State. If a private citizen has occasion to go abroad, he will

make his application to the Government and go; and, on his return, if he has any foreign currency left over in his possession, he will hand it over to the State, receiving in exchange the equivalent in local currency."

Plato seems to have had more than an inkling of the real functions of money, and in each of the monetary systems we have examined the experts appear to have arrived, by a different process of reasoning, at the same conclusion—that the currency of a country should expand and contract with the demands made upon it, but it is to the adherents to the gold exchange standard that credit must be given for perceiving that there must be an efficient control over the surplus arising from time to time if the parity is to be properly maintained. In the gold exchange standard, as we have seen, the Government can exercise this control simply by buying or redeeming the surplus currency at fixed rates whenever there is a demand for foreign remittances, and once the excess is in Government possession it can be kept out of circulation until the foreign exchange quotation falls within the desired limits, or, to put it another way, until the demand for redemption of the currency ceases. Ability to maintain the approximate gold parity is, therefore, dependent upon the Government's power to control the surplus currency, and the regulating of this surplus currency is, in its turn, dependent upon the Government's ability to maintain the price of exchange remittances to gold countries.

The statement that the Government controls the *foreign exchanges* is fallacious: a government does not and cannot control the foreign exchanges; it may endeavour to interfere with the free play of the true economic forces, but that is another matter. What a government does control in the gold exchange standard is the price of foreign gold, bills of exchange, and other similar forms of remittance, and it is through this system of exchange that the quantity of the token coins is made to respond automatically to the trade demand.

This brings us to the objection which has been made to the gold exchange standard; that it is difficult to say what constitutes a sufficiency of exchange funds. At first, the principles were little understood; and there were not wanting critics who predicted possible disaster when, as the result of an adverse balance of trade, a country found itself in the position of having to meet an unlooked-for drain upon its supply of exchange. These critics had, however, overlooked the fact that not all, or even half of the currency of a country would ever be likely to be seeking redemption; it is only the supply of surplus currency, or, as it has been described, that quantity of local currency on the margin of possible export demands, which requires to be safeguarded; and the criticism was very effectually answered by a competent American authority,<sup>1</sup> who showed that there is always a substratum of the currency which will never leave the country except under the influence of an almost inconceivable economic disruption. On the analogy that this substratum resembled the "authorised" circulation of the Bank of England, he argued that it represented the irreducible minimum below which the local need for currency could never fall. Consequently, if the supply on the margin of international exchange movement be adequately guarded, then the whole system would be secure.

The criticism levelled at the gold exchange standard is about as specious as that brought forward by those objectors to the British Government's issue of currency notes during the war, who, labouring under the delusion that circumstances might arise in which all the currency notes would be presented for payment about the same time, maintained that the danger would be overcome by the Government's setting aside the equivalent of each note in gold. It is inconceivable that such a contingency could arise with notes which were stated to be redeemable in gold on demand at the Bank of England.<sup>2</sup> With convertible notes

<sup>1</sup> C. A. Conant.

<sup>2</sup> *Cf.* Sec. 1, sub-sec. 3—Currency and Bank Notes Act, 1914.

the Government rests secure in the knowledge that there is always a point at which the demand for redemption ceases; similarly in the gold exchange standard it is held that the security for the system lies in the natural limit to the possible demands upon the Government's exchange funds.

The only other question to be decided was whether the gold exchange standard would be able to bear the strain of a great war, and, unhappily, that test came sooner than was anticipated. As far as this currency system was concerned, however, results proved that those who had been courageous enough to adopt it had built on a foundation more solid than even the most sanguine exponents of the standard could have foreseen; and, as we shall see in the course of our studies, the gold exchange currency system stood the stress of war in a more praiseworthy manner than most European monetary systems. Owing to the suddenness with which the great European conflict burst upon the world, it was inevitable that almost every financial centre of importance should be affected, and owing to the peculiar situation of Eastern countries in exchange matters, we might have expected somewhat of a breakdown; yet, those in which the gold exchange standard was operative came out of the ordeal in such a way as to show the remarkable strength of the standard.

The Indian system, to take only one example, met the crisis better than the currency system of almost any other important country. It was found unnecessary to declare a moratorium, and the exchange value of the rupee was satisfactorily maintained between the gold points, though it is true that severe difficulties were encountered after the war.

Little reference has been made to the position of notes in the gold exchange standard; but in most countries conforming to the system, notes are in circulation side by side with the silver, and some authorities go so far as to say that, once the public has become used to the system, a paper currency could be substituted for the token silver

coins. In view, however, of the abuse to which paper issues are subject, one hesitates to adopt that suggestion, although as long as satisfactory reserves are held against the notes, little objection can be taken to their issue; but the question of what is a satisfactory reserve is one which still remains to be answered, even in countries on the full gold standard.

We need not at this stage go further into the merits or demerits of the gold exchange standard, but enough has been said to indicate the advantages it possesses over the silver standard, and the reader will better appreciate its worth by comparing the monetary position of the various countries with which we shall now have to deal.

## CHAPTER III

### INDIA

THE PROVINCES : AREA, DEBT, AND TAXATION—

THE MONETARY SYSTEM : PAST AND PRESENT

“INDIA,” says one of the old writers, “is properly called that immense Province of Asia in which great Alexander kept his warres, and which was so named of the river Indus.” As defined by Parliament, it now comprises all that part of the great Indian Peninsula which is directly or indirectly under British rule or protection, a definition which often leads the passing inquirer to suppose that references to British India include the various Indian native states and agencies. For the purposes of this book, however, the term British India must be held to mean only those provinces under British law, and these, generally speaking, do not include the native states.

As the result of administrative changes carried into effect in 1912, British India is now divided into fifteen provinces. The eight principal provinces are: the Presidencies of Madras, Bombay, and Bengal; the United Provinces of Agra and Oudh; the Punjab; Burma; Behar and Orissa; Central Provinces and Berar. The minor provinces are: Assam, the North-West Frontier Province, Ajmer-Merwara, Coorg, Baluchistan, Delhi, Andaman and Nicobar Islands.

The total area of British India is 1,093,074 square miles; the population, according to the Census of 1921, 247,000,000—equal to 225 per square mile.

The total debt of British India on 31st March, 1922, was £635,720,148, or about £2 per head of population.

It might be well to point out that the debt of India is not a dead weight debt, representing capital destroyed in wars. It is represented by a “Block” in the shape of



productive railways and irrigation works, which before the Great War were actually worth more than the total amount of the debt.

The Indian national debt is divided almost equally between England and India; the rupee debt on 31st March, 1922, was 305·36 crores of rupees (one crore = 10,000,000 rupees), and the English portion (converted at Rs. 15 to £1) 307·46 crores. Of this total debt of Rs. 612·8 crores, the ordinary unproductive debt amounted to only Rs. 120·6 crores; the productive debt, Rs. 492·2 crores, was represented by, railways Rs. 426·1 crores, and irrigation Rs. 66·1 crores. This is a national indebtedness, which, in comparison with India's national resources, is considerably smaller than that of most other nations.

Taxation falls under seven principal headings—

Salt,	producing in the financial year 1913-14					£3,182,501
Stamps	"	"	"	"	"	5,260,120
Excise	"	"	"	"	"	8,790,777
Provincial Rates	"	"	"	"	"	179,688
Customs	"	"	"	"	"	7,410,846
Assessed Taxes	"	"	"	"	"	1,936,772
Registration	"	"	"	"	"	517,976

£27,278,680

On the basis of these figures, the incidence of the taxation per head of the population is equivalent to 2s. 2·4d. Much of the revenue of India is, however, derived from land, which produced, in 1913-14, £21,392,000, equal to 1s. 8d. per head of population; and if this be added to the other figures, the actual burden of taxation works out at 3s. 10·4d. per head, which even then is infinitely less than the incidence of taxation in Great Britain.

Since this book was first published various administrative changes have been made in India and reforms instituted. With effect from 1st April, 1921, there has been a splitting up of several items of revenue between the Central and the Provincial Governments, and definite sources of revenue have now been assigned to the latter.

However, taking the taxes as a whole, we find that in the financial year 1921-22, the main items were—

Salt, producing	.	.	.	.	.	£7,006,000
Stamps	„	.	.	.	.	11,243,000
Excise	„	.	.	.	.	20,334,000
Customs	„	.	.	.	.	37,733,000
Income Tax	„	.	.	.	.	20,475,000
						<hr/>
						£96,791,000

giving an incidence of taxation of approximately 7s. 4d. per head of population.

The land revenue is now paid to the Provincial Governments; it produced in 1921-22 £35,030,000, thus bringing the incidence up to 10s. 8d. per head of population. The conversion of rupees into sterling 1921-22 was made at the new ratio of 10 to £1, against 15 to £1 as formerly.

In a former edition of this work land revenue was described as not being taxation, but it has since been pointed out to the author that in the case of India it is as much taxation as income tax. The theory that it is not so is the official contention, designed, we imagine, to strengthen an already perfectly good case as against native attacks on the Government, that India is one of the most highly taxed countries in the world. The official theory is that because all land in India is the property of the State, therefore, land revenue is rent and not taxation. This, however, is mere playing with words. Land in England is in law the property of the Crown, but freehold is the equivalent of ownership, and in India, as in England, the primary interest of the landholder is a freehold. The sums taken from him by Government as land revenue, therefore, may be fairly described as taxation. The amount of land which the Indian Government holds as the actual landlord (called “Khas Mahals”), and for which it receives “rent” as ordinarily understood, is comparatively small.

Taxes cannot be paid without money, so, without

further parley, we will endeavour to initiate the reader into the mysteries of Indian currency.

In order to understand the monetary system now in force in India, it is not really necessary to enter deeply into matters historical; but the present system, being built largely on the ruins of the past, it is desirable to give the salient facts in the history of Indian currency in order that the student may better appreciate the links of continuity between that which has been and that which now is.

Prior to the nineteenth century there existed no uniform measure of value in British India; and the currency system, although not quite in that chaotic state for which the Chinese currency of to-day is noted, was in a highly unsatisfactory condition. Different provinces maintained different standards; there was little cohesion between any of them, and the want of uniformity was a fruitful cause of trouble. Gold as well as silver was in circulation. The Madras Presidency, for instance, maintained a gold standard and currency, the gold pagoda<sup>1</sup> being the principal coin, while in Bengal a silver standard obtained, with gold coins in concurrent circulation; and, to cut a long story short, throughout the whole of India the coins, whether of gold or silver, were found to differ in denomination and in intrinsic value, often within the same district, always within the same province. This state of affairs naturally led to urgent demands for the reform of the currency, and in 1806 the old East India Company did make some sort of attempt to put matters upon a more stable basis. They seem to have concluded that the requirements of the people were to be met by the universal adoption of the silver rupee as the standard coin for India; and, while not desiring to drive gold out of circulation, expressed themselves satisfied of the propriety of the silver rupee's being the principal measure of value and the money of account. One cannot describe their policy as fruitless, since it did

<sup>1</sup> The pagoda, or pagod, was the name given to a gold coin bearing a pagoda on the reverse; it appeared in India in the sixteenth century, and was worth about seven shillings.

lead ultimately to a definite result—the substitution, in 1818, of the silver rupee for the gold pagoda as the standard coin in Madras; and the establishment, in 1835, of the silver rupee as the standard coin for the whole of British India. In the latter year it was also enacted that no gold coin would henceforth be legal tender in any territory under the jurisdiction of the East India Company; but one of the curiosities of this Act of 1835 was the authorisation it contained regarding the coining of gold mohurs (15 rupee pieces),<sup>1</sup> which appear subsequently to have got into circulation, as we find in a Proclamation of 13th January, 1841, the public treasuries were empowered “freely to receive these coins at the rates, until further orders, respectively denoted by the denomination of the pieces.” This Proclamation, however, became a source of continual embarrassment to the Government; the gold mohur and the silver rupee, being of identical weight and fineness, its effect was to make the ratio between gold and silver 15 to 1.

Then there came the Australian gold discoveries, which, as is well known, caused gold rapidly to diminish in value relative to silver; and, consequently, holders of gold coin in India promptly availed themselves of the opportunity to exchange their gold at the Government treasuries for a higher price in silver than could be obtained on the open market. This state of affairs was allowed to continue till 1853, when the privilege was abrogated and a Notification issued to the effect that gold would cease to be legal tender to the Government as from 1st January, 1853: it had ceased to be legal tender as between private persons in 1835.

Thenceforward the standard was purely silver, and continued so up to 1893. The rupee (180 grains of silver eleven-twelfths fine) and the half-rupee were legal tender to an unlimited amount, and the mints were open to the public for the free coinage of silver: there was also a

<sup>1</sup> Cf. page 30 concerning war coinage of “Gold Mohurs.”

subsidiary silver fractional coinage, but that was legal tender only to the extent of 1 rupee.

Gold being no longer legal tender, there were, of course, no current gold coins.

The Indian currency system prior to 1893 is generally described as a monometallic one, with silver as the standard of value, and a circulation of silver rupees and notes based on them;<sup>1</sup> and it may be convenient at this point to make brief reference to the note issues of the period.

The authorised issues were at first in the hands of the three Presidency Banks (Bengal, Bombay, and Madras), which, under various Acts of 1839, 1840, and 1843, were empowered to issue notes payable on demand, mainly limited to the three cities of Calcutta, Bombay, and Madras. The Presidency Banks, however, were not to be allowed to retain the monopoly of note issues. In 1861 an Act was drafted which had the effect of repealing the previous statutes and vesting in a Government Department the management of the paper currency. Under the new law the Indian Government took upon itself the sole right to issue its own notes payable to bearer on demand through this department. The Act came into force on 1st March, 1862, and since that date no banks have been allowed to issue notes in India.

Such are the chief events in the history of Indian currency up to 1893. During the long vista of years from 1835 the currency policy of the Government had been severely criticised. There was much inconvenience and embarrassment to all parties arising out of the continued depreciation in the gold value of silver; and the authorities were beset on the one side by those who clamoured for the suspension of the compulsory coinage of silver by the Indian mints, and on the other by those who saw, or thought they saw, in the adoption of a full gold standard the panacea for all currency evils. Exchange had been in a bad way for some years; in 1873 the average rate for

<sup>1</sup> Cf. Indian Currency Report of 1914, page 7.

Council Bills was 1s. 10½d., but it had fallen gradually for twenty years until, in 1892, the average rate was 1s. 4½d.; and in 1893, mainly owing to the rumoured suspension of purchases of silver by the United States Government, the rate fell below 1s. 3d. Hitherto the enormous American silver purchases had supported the price of the metal considerably, but from 1892 its gold value fell rapidly, and at the same time imports of silver into India had greatly increased. Little investigation was needed, therefore, to show that the falling exchange was the outcome of two chief causes: the increase in the purchasing power of gold and the increase of the imports of silver into India. The adverse effects upon the trade and commerce of the Indian Empire as the result of this continued fall in the gold value of the rupee were apparent, and, in response to popular demand, the Government was led to consider by what means the evil could be remedied. A committee was appointed under the aegis of Lord Herschell to examine and report upon the matter; and, acting on the recommendation of that committee, on the 26th June, 1893, the Government closed the Indian mints to the free coinage of silver, and at the same time ceased itself to add rupees to the circulation. Simultaneously with the closing of the mints, the public was given the legal right to demand from the Government rupees in exchange for gold at the rate of 1s. 4d. to the rupee (or 15 rupees to the pound sterling), without limit of amount. From that date silver thus ceased to be the standard of value in India, though it is still used, as before, as the chief material of currency.

Now, if the reader has followed what has been said concerning the principles of the gold exchange standard, he will recognise that the natural consequence of this contraction of the currency would be an increased demand for the token coin, and a corresponding rise in its exchange value; and, as a matter of fact, that is exactly what did occur—ultimately—in India's case. With the increased

demand for the rupee, its exchange value began to rise; and in a comparatively short period it became profitable for those who had remittances to make to India to take advantage of the Government's offer to give rupees in exchange for gold at the fixed rate of 15 rupees to £1.

Once the exchange value of the rupee had reached 1s. 4d., the Government's aim was to endeavour to maintain it at that level within the limits of variation that apply in the case of the exchange between countries whose currency is mainly gold. But although the steps it took did have the effect of making the exchange value of the rupee cease to coincide with the price of silver, much water flowed down the Ganges before the Government was able to eliminate all the factors which had disturbed the exchange value of the Indian monetary unit.

The arrangements failed to satisfy all the critics; and, in 1898, another Commission was appointed, under the chairmanship of the late Lord Wolverhampton (then Sir Henry Fowler), to consider and, if necessary, enlarge upon the various proposals previously put forward. This committee's deliberations lasted fifteen months, and its report was presented on 7th July, 1899. It recommended that the decisions on the policy laid down by Lord Herschell's Committee in 1893 should be maintained, and that the British sovereign should be declared legal tender in India at the rate of one sovereign to fifteen rupees. These recommendations were accepted by the Government; and in September, 1899, the legal relation between rupees and gold was definitely fixed by its making sovereigns and half-sovereigns legal tender in India at the rate of 1s. 4d. per rupee (i.e. 15 rupees to £1).<sup>1</sup> It must be confessed that the Government did not get rid of all its currency troubles at one stroke, although, as it

<sup>1</sup> Indian Act No. XXII of 1899. Section 11 of the Indian Coinage Act of 1906 also includes sovereigns as legal tender in India in payment or on account at the rate of fifteen rupees for one sovereign.

had previously succeeded in divorcing the value of the rupee from its bullion content, the successful issue of its attempt to establish the currency on a gold basis was never really in doubt; in fact, from 1899 onwards the fluctuations in exchange due to the fall in value of the gold price of silver were to all intents and purposes removed, and with few exceptions the exchange value of the rupee remained steady at about 1s. 4d. for a long period. What these exceptions were we shall presently see: let it suffice here to say that, whether intentional or not, the monetary standard the Government was henceforth committed to was in reality a gold exchange standard, not a full gold standard after the English model.

It might be mentioned, in passing, that although the Government had succeeded in giving a gold backing to the currency, yet its primary efforts to push the circulation of the sovereign in India were not very encouraging, and for the time being the attempt was not actively persisted in. That fact, as it happened, was of no great importance, since in the gold exchange standard, gold actually in circulation is of very little value in maintaining exchange; and the internal medium of circulation, whether it be silver or notes, is largely dependent for its value in exchange on the possession of adequate gold resources. Such resources, as we have seen, need not necessarily be kept in the home country, and the Indian Government apparently realised this, for it commenced to prepare for eventualities by building up a reserve of gold in London, to be used, if necessary, in support of exchange.

India is one of those countries which would have brought joy to the hearts of the old mercantilists—her international credits nearly always exceed her debits. In seasons of ordinary prosperity, therefore, no effort is needed for the maintenance of the exchange value of the rupee at 1s. 4d., since the balance of trade which is usually heavily in India's favour assures that. It is only when the favourable balance is seriously diminished, or the balance becomes



temporarily unfavourable, that such measures are necessary; and it was to meet such a contingency that reserves were created.

The reserves now available are the Gold Standard Reserve and the gold held in the Paper Currency Reserve—it is the former which was instituted in 1900. The funds in the Gold Standard Reserve are derived from the profits on rupee coinage and interest on investments, and they amounted on the 31st March, 1914, to £25,532,230: the gold in the Paper Currency Reserve at the same date being £21,056,900.

The first occasion on which these reserves were utilised was in 1907–8 and 1908–9. Owing to the failure of the monsoon in India at that period much distress was caused, exports were greatly restricted, and business generally was in a bad state. These conditions were made worse by a serious financial crisis in America following the failure of the Mercantile National Bank and several big trust companies, and the unexpected increase in America's demand for gold soon caused a scarcity of that metal. The ensuing monetary stringency immediately caused a cessation of the demand for Council Bills (remittances sold in London by the Secretary of State for India for the dual purpose of financing India's Home Charges, and enabling London merchants and bankers to make payments in India); and as the exchange between India and Great Britain showed signs of falling below 1s.  $3\frac{2}{3}\frac{9}{2}$ d., it became necessary to suspend temporarily the ordinary sales of drafts on India, and to adopt the reverse operation of selling sterling bills in India on London. Sales were made in India to the extent of £8,058,000 at 1s.  $3\frac{2}{3}\frac{9}{2}$ d. per rupee, and this greatly assisted in the settlement of the balance of trade.

The second occasion on which the Government of India was obliged to take steps to support exchange was on the outbreak of the great European war. The dislocation of the world's exchanges made it apparent that something

should be done to protect exchange between India and London from falling, and immediate action was taken. The Government arranged on the 3rd August, 1914, to sell sterling bills and telegraphic transfers on London up to a maximum amount of £1,000,000 sterling a week, in order to provide a guarantee of immediate remittance when required. In order to eliminate the uncertainty due to possible delay in the transfer of the bills by mail steamer, it was also arranged that demand bills should be payable in London sixteen days after the departure of the weekly mail. The sale of these sterling bills, which, it was pointed out, meant merely a transfer from the reserve in England to that in India, amounted for the months of August, 1914, to January, 1915, inclusive, to £6,807,000 at 1s.  $3\frac{2}{3}\frac{9}{2}$ d. per rupee. The price at which the telegraphic transfers were offered in the first instance was 1s.  $3\frac{1}{16}\frac{3}{8}$ d., but this rate was subsequently raised to 1s.  $3\frac{2}{3}\frac{7}{2}$ d., concurrently with the reduction in the Bank of England rate to 5 per cent.<sup>1</sup>

The effect of the Government's prompt action was to steady exchanges and to keep the rate in the neighbourhood of the gold export point from India.

Besides these measures, the Government took the precaution to restrict the dissipation of its gold in India by laying down that no gold should be issued to any one person or firm to a smaller extent than £10,000. This precaution was, however, rendered nugatory, as the wily Marwaris soon perceived that they could bring their demand up to the prescribed minimum simply by clubbing together; and by the 5th August, 1914, when some £1,800,000 in gold had been withdrawn by these tactics, the Government refused the issue of gold altogether to private persons, and no further trouble was experienced.

The inherent soundness of the Indian monetary standard was amply demonstrated by the events of 1914, and the

<sup>1</sup> Owing to a further fall in exchange it again became necessary to have weekly sales of sterling drafts on London in June, 1915; the sale of these Reverse Councils continued for three months.

manner in which the country emerged from the financial crisis which had marked the opening days of the war in all lands undoubtedly gave the lie direct to the host of hostile critics which of late years had questioned the stability of India's currency system.

We need make little reference to the criticism rampant in the years 1913-14, which culminated in the appointment of a Royal Commission to investigate the whole question. This Commission, which reported early in 1914, entirely endorsed the policy adopted during the previous twenty years, and approved the measures which had been taken since the date of the previous committee of 1898 for the maintenance of the exchange value of the rupee. Subsequent events, too, seemed to have confirmed the correctness of the lines followed by the currency administration, and, had it not been for the Great War, it is possible that further alterations might not have been necessary. A certain number of minor recommendations on particular aspects of Indian currency management were adopted by the Government and given effect to. Then came the European conflict; it caused endless difficulties in India as elsewhere; yet another Commission ultimately became necessary, and, as we shall see later, numerous innovations were made.

However, of the recommendations adopted as the result of the 1913-14 Commission, one has already been referred to—the prompt selling of sterling bills and telegraphic transfers on London in support of exchange in times of crisis: the other concerns the Gold Standard Reserve. In accordance with the recommendations of the Commission, the silver branch of this reserve was abolished in August, 1914; and the rupees held therein have been transferred to the Paper Currency Reserve in exchange for a corresponding amount in gold (£4,000,000), and the Gold Standard Reserve now consists entirely of gold and gold securities.

The following statement shows the form in which the

balance of the Gold Standard Reserve was held on 30th November, 1923—

In India . . . . .	£ Nil
In England—	
Cash at the Bank of England . . . . .	£1,507
British Government Securities—	
Value as on 30th Sept., 1923 . . . . .	£24,486,224
British Government Securities	
since purchased (cost price) . . . . .	15,612,352    £40,100,083

The mention of the Paper Currency Reserve brings us to another well-managed part of the Indian system—the paper issues. As we have said earlier, the power of certain banks to issue notes in India was cancelled in 1862, and the responsibility for the paper currency thereafter devolved upon the Government. In 1893, for the purposes of paper currency, India was divided into eight circles, notes for five rupees alone being legal tender throughout the country, and payable at any offices of issue in the country; notes of higher value were legal tender only within the circle for which they were issued. A consolidation and amendment of the Paper Currency Law was made in 1910 (Act II), under which notes of 5, 10, 15, 100, 500, 1,000, and 10,000 rupees were issued. By the passing of this Act of 1910 the paper currency system of India entered upon a new and important stage in its development; notes of a denominational value of 10 and 50 rupees were brought into line with the 5-rupee notes and “universalised,” that is, made legal tender throughout British India, and negotiable at any of the offices of issue in India.<sup>1</sup> The 100-rupee note was also made universal as from 1st April, 1911. Currency notes of all denominations are, of course, legal tender in their own circle.

There are now seven currency circles, with headquarters at Calcutta, Madras, Bombay, Rangoon, Lahore, Cawnpore, and Karachi respectively.

<sup>1</sup> Sec. 2 of the Indian Paper Currency Act of 1910 defines a “universal currency note” as (a) a note of the denominational value of five rupees, ten rupees, or fifty rupees; or (b) a note of any other denominational value which the Governor-General in Council may, by notification in the *Gazette of India*, specify in this behalf.

The total amount of currency notes in circulation is secured by a reserve equal to their full value. This reserve is held in gold, silver, and securities of the Government of India or of the United Kingdom. The 1910 law in force (amended by Act No. VII of 1911) provides that securities of the Indian Government and British Government may be held as part of the reserve up to a limit of 140,000,000 of rupees (say, £9,333,000), of which not more than Rs. 40,000,000 (say, £2,667,000) may consist of British Government securities, the value in each case being taken as the price at which they are purchased. But by the Indian Paper Currency Amendment Ordinance of 1915, power was taken to raise the total amount of these securities to Rs. 200,000,000 (£13,333,000) as a temporary measure only.

No limit to the amount of the Paper Currency issues has ever been fixed; but as the Indian Paper Currency Act provides that the whole amount of currency notes at any time in circulation shall not exceed the total amount represented by gold, silver, and securities held by the Secretary of State for India and by the Governor-General in Council, there is no danger of over-issue. The extent to which the circulation is based on gold is shown in the following figures of the circulation and the reserve, as given in the Indian Currency Return published on the 7th December, 1923—

Notes in circulation	. . . . .	Rs. 182,20,00,000
Reserve in—		
Silver coin and bullion in India	. . . . .	Rs. 9,340,00,000
Gold Coin and bullion in India	. . . . .	2,232,00,000
Securities (Indian Govt.)	. . . . .	5,748,00,000
„ (British Govt.)	. . . . .	900,00,000
		Rs. 182,20,00,000

Owing to the continued heavy absorption of all forms of rupee currency, the Government of India decided in the autumn of 1917 to issue notes of a smaller denomination; and on 1st Dec., 1917, the issue of 1-rupee currency

notes was commenced at the head offices of the Presidency Banks at Calcutta, Bombay, and Madras. The facilities for cashing currency notes of other denominations in India at District Treasuries were also extended to the 1-rupee notes, which are legal tender throughout India and encashable for rupees at all currency offices. Notes for Rs. 2½ (Rs. 2, 8 annas) were also issued in January, 1918. At first these notes of small denomination circulated slowly, but later, when the supply of silver rupees was curtailed, their circulation increased rapidly.

Under Section 11 of the Indian Paper Currency Act of 1910, currency notes were issued at the rate of Rs. 15 for one sovereign; and, as we have seen, prior to the war it was the Government's practice also to issue freely to the public on demand, at the same rate, sovereigns from the stock of gold held in the Paper Currency Department and Government treasuries. But in case the Government's action in placing an embargo on the withdrawal of gold just after the outbreak of war be questioned, it should be noted that there has never been any *legal* obligation on its part to give sovereigns in exchange for gold—the Indian Currency Committee of 1898–9 recommended the Government not to saddle itself with the legal obligation to give sovereigns in exchange for rupees at £1 = Rs. 15, and that liability has consequently never been undertaken.

During the whole period of the crisis of 1907–9, £4,179,000 in gold was withdrawn by the public (of which £250,000 only was exported on private account); in the crisis of 1914, £1,800,000 was withdrawn in the first two or three days of August; and, as in the previous crisis, in nearly every case it was found that the gold was not withdrawn for the purpose of meeting legitimate demands, but for speculative purposes.

This brings us to the question of how far gold at present enters into the currency of British India.

The capacity of India for absorbing the precious metals has always been great. For gold bullion in small bars

there has always been a steady domestic demand, but it is only of recent years that sovereigns have been imported into India in ever-increasing quantities; and the following figures, which include the absorption of sovereigns for all purposes (hoards, circulation, the melting-pot, and Government account), will give some idea of the position—

1905-6	. £3,994,484	1910-11	. £8,540,317
1906-7	. 5,360,917	1911-12	. 18,342,000
1907-8	. 6,445,834	1912-13	. 17,795,000
1908-9	. 1,079,149	1913-14	. 8,502,000
1909-10	. 9,240,964	1914-15	. 1,567,000

Although of late years there has been an increasing preference for sovereigns in India, it is a little difficult to say how far these were required for genuine currency use. It is quite certain that a large portion of the sovereigns never found its way into circulation at all; but, on the other hand, it is equally certain that in many districts the sovereign has been firmly established as an actual medium of circulation; and, until the war broke out, its use for purposes of currency in the Bombay Presidency and the United Provinces, the Punjab and Madras, appeared to be on the increase. The figures for 1913-15 show a large decline, but this must be accounted for by the action of European governments in conserving their gold resources rather than in any diminution of the demand from India. In the ordinary course of events, for instance, there would have been a large amount imported from Australia during the year 1914-15, since, owing to the drought which seriously affected the Australian wheat crop and the wool clip, there was a heavy balance of trade against that country which, in normal years, would have been cancelled by shipments of sovereigns arranged from England.

After the war sovereigns began to flow to India again. The gross imports of the coins into India during the period 1919-22 were—

1919-20	. . . . .	£2,642,000
1920-21	. . . . .	3,249,000
1921-22	. . . . .	1,858,000

When this chapter was first written, there appeared no possibility of gold being coined in India. As a matter of fact, the Indian Currency Committee of 1913 came to the conclusion that a mint for the coinage of gold was not needed, either for purposes of currency or exchange. They agreed, however, that if Indian sentiment genuinely demanded it and the Government of India were prepared to incur the expense, there would be no objection in principle to its establishment either from the Indian or from the Imperial standpoint. But they made this proviso : that the coin minted should be the sovereign or the half-sovereign. "It is pre-eminently a question in which Indian sentiment should prevail," they said.

The sequel comes some four years afterwards. In the early summer of 1918 the Government of India had large disbursements to make in connection with purchases of wheat and other material, and they considered it expedient to provide for a portion of these payments being made in gold, in order to enable them more rapidly to replenish their rupee stocks from the new coinage which the Mints were then carrying out. The branch of the Royal Mint at Bombay was not then ready or in a position to coin sovereigns ; consequently on 14th June, 1918, the Gold Coinage Ordinance (1918) was issued providing for the coinage of the gold mohur, or 15-rupee piece, weighing 123·27447 grains, and having eleven-twelfths fine gold and one-twelfth alloy. The mohur was made legal tender in payment or on account at the rate of 15 rupees for one mohur. It was, therefore—as far as weight and fineness go—identical with the British sovereign ; or, to put it more plainly, the mohur is made of standard gold, which is a mixture of gold and alloy in the proportion of 22 carats of the former to two of the latter.

As regards image and superscription, the gold mohur has on the obverse the image of the crowned head of His Majesty King George, with the inscription "George V, King Emperor." On the reverse, inside an ornamental



border, are the words : " 15 rupees—India," and the year of coinage, viz., 1918.

We may here return to the subject of paper currency in India. There have been various interesting adjustments in the constitution of the Paper Currency Reserve of recent years. In September, 1919, the Government was faced with difficulties over its ways and means position, to ease which legal powers were taken temporarily to increase the permissible holdings of securities in the Paper Currency Reserve to Rs. 120 crores, of which Rs. 100 crores had to be held in British Treasury Bills.<sup>1</sup>

Further steps had to be taken in 1920. Prior to 1920, as we have shown on page 27, there was a fixed maximum for the fiduciary part of the Paper Currency Reserve (Rs. 140,000,000 up to 1915; Rs. 200,000,000 after 1915). For notes issued in excess gold or silver of equivalent value had to be deposited in the reserve. Either British or Indian Government Securities were allowed, and a maximum was prescribed for each. Owing to its heavy sales of Reverse Councils (sterling remittances drawn on London but sold in India), there was a large holding of rupees in the Treasury in India, representing payments made there by purchasers of the sterling remittances. In London, on the other hand, the Secretary of State for India was faced with the necessity of paying out over £50,000,000 sterling. He was obviously unable to meet these drawings entirely from his Treasury balances, and to obtain the additional funds required, he was compelled to dispose of part of the sterling securities held in the Paper Currency Reserve in London. But there were the large balances of rupees that had been accumulated in India, and in the absence of special legislation permitting of increased investments of these funds in Indian securities, it would have been necessary, as part of the reserve against the fiduciary issue had been sold, to cancel notes

<sup>1</sup> Act XXVI of 1919.

to the full rupee equivalent of the sterling securities sold. This, in turn, might have precipitated a severe monetary crisis in India, to obviate which a small portion only of the notes was cancelled, and a temporary Act (No. XXI of 1920) was passed in March to continue the existing total of Rs. 120 crores as the limit of permissible investment, but abolishing the restrictions as to the locale of the investments and their sterling or rupee character. This Act remained in force to 1st October, 1920, when it was replaced by the Indian Paper Currency Amendment Act (No. XLV of 1920).

In the meantime, a Currency Committee (known as the "Babington-Smith Committee") had been appointed on 30th May, 1919 to examine, among other things, the effect of the war on the Indian exchange and currency system and practice, and upon the position of the Indian note-issue. Its report was issued on 22nd December, 1919, and the above-mentioned Act was designed to give effect to the recommendations of the Currency Committee as to the eventual statutory constitution of the Paper Currency Reserve, while providing for a temporary transitional period of adjustment. The Act<sup>1</sup> provided in the first place for the issue of currency notes against sovereigns and half-sovereigns at the new rate fixed by the committee, and to which we shall refer in the next chapter, of Rs. 10 per sovereign, and against gold bullion at the corresponding rate of one rupee for 11·30016 grains troy of fine gold. Secondly, the Act lays down the permanent constitution of the reserve, which is to include—

(a) The Metallic Reserve, consisting of the total amount represented by the sovereigns, half sovereigns, rupees, silver half rupees, and gold and silver bullion for the time being held on that account by the Secretary of State for India in Council and by the Governor General in Council, provided that the gold coin and bullion held by the

<sup>1</sup> Cf. Report on the Operations of the Indian Currency Department, 1920–21, by A. C. McWatters, Controller of the Currency.

Secretary of State in the Metallic Reserve shall not exceed Rs. 5 crores in value.

(b) The Securities Reserve, consisting of the securities for the time being held on that account by the Secretary of State for India in Council and the Governor General in Council ; provided that—

(i) the securities held by the Secretary of State shall not be of longer maturity than one year from the date of purchase, and

(ii) the securities held on behalf of the Governor General in Council shall be securities of the Government of India and shall not exceed in amount Rs. 20 crores. Not more than Rs. 12 crores of this amount may be in securities created by the Government of India and issued to the Controller of the Currency.

The Act also prohibits the issue of currency notes if such issue shall have the effect of raising the amount of notes in circulation to more than twice the amount of the metallic reserve. This statutory constitution of the Paper Currency Reserve, the Controller of the Currency states, is to be brought into force on a day appointed by the Governor-General in Council as soon as convenient after the relation of the amount of the currency notes in circulation to the amount of reserve has been brought into conformity with the above-mentioned provisions, and the metallic reserve is not less than 50 per cent. of the currency notes in circulation. During the intermediate period the Act provides for a temporary constitution of the Reserve under which the securities of the Government of India held in the Reserve shall be limited to Rs. 85 crores, and so long as the "created securities"<sup>1</sup> exceed Rs. 12 crores, all interest derived from the securities in the Reserve shall with effect from

<sup>1</sup> It should be noted that the permanent constitution of the Reserve authorised by the Indian Paper Currency Amendment Act of 1920 contemplates a holding of Indian securities up to 20 crores of rupees, of which 12 crores of rupees may be created securities.

1st April, 1921, be applied in reduction of such excess holdings.<sup>1</sup>

This Act also gave power to the Governor-General in Council to issue currency notes up to Rs. 5 crores in value against bills of exchange maturing within 90 days from their date of issue and under such conditions as the Governor-General in Council may under general or special order prescribe. This was a novel and important clause in the Amendment Act, and it marks the first occasion in the currency history of India on which the issue of notes on the security of bills has ever received legal sanction.

The issue, it was suggested, should take the form of loans to the Presidency Banks on the collateral security of bills endorsed by them, and having a maturity, as above stated, of not exceeding 90 days. It was further suggested that the interest charged to the banks for such advances should be not less than 8 per cent. per annum. The bills tendered as collateral, it was said, should be bona fide commercial bills drawn against goods under export; but, to quote the words of the Controller of the Currency again, the<sup>2</sup> Babington-Smith Currency Committee contemplated the possibility of the provision being extended to internal bills of exchange if the difficulty of connecting internal bills with definite transactions in commodities could be overcome. The reason export bills were favoured was not only because they would lead to the automatic retirement of the emergency note issue on their maturity, but also because such bills would be more easily identifiable as representing a definite commercial transaction than internal bills which might be created for purposes of finance or against goods held for speculative transactions.

<sup>1</sup> Professor Jevons, of Allahabad University, estimates that on the assumption that no other funds are utilised to reduce the "created" securities, it will take five or six years to attain the permanent composition of the Reserve

<sup>2</sup> *Vide* his Report of 1921-22.

As a result of this recommendation, Section 14 of the Indian Paper Currency Amendment Act, 1920, included the following new section, 19A in the Paper Currency Act (II of 1910)—

“Notwithstanding anything to the contrary in section 19, the Governor-General in Council may authorise the Controller to issue currency notes to an amount in all not exceeding fifty millions of rupees against bills of exchange which will mature within ninety days from the date of such issue and satisfy such other conditions as the Governor-General in Council may, by general or special order, prescribe. Currency notes so issued shall be in addition to those against which the Reserve is held and shall be deemed to have been issued on the credit of such bills and of the revenues of India and shall, when presented, be paid from such revenues.”

The Government of India, however, after consulting commercial opinion in India, rejected the idea of basing the new procedure on export bills and prescribed the following conditions for the issue of loans from currency against bills of exchange—

(1) The bills of exchange shall be internal bills or *hundis* drawn for trade purposes.

(2) If the documents themselves do not bear any evidence of being drawn for such purposes, the Imperial Bank of India shall certify that, to the best of its knowledge, the accommodation provided for is for the furtherance of trade.

(3) The bills shall remain in the custody of the Imperial Bank of India as securities held on behalf of the Currency Department and shall, if the Controller of the Currency so requires, be endorsed by the Bank to the Controller.

The Government of India in further rules of procedure, specified that the rate of interest on such loans should be fixed by the Controller at not less than 8 per cent. per annum.

In accordance with these provisions, on 10th March, 1921,

the Imperial Bank of India (an institution constituted under the Imperial Bank of India Act, 1920, for the purpose of taking over the undertakings and business, as from 27th January, 1921, of the Bank of Bengal, the Bank of Bombay, and the Bank of Madras), obtained a loan from currency of two crores of rupees against the security of internal bills of exchange. This loan carried interest at 8 per cent. per annum. There was some divergence of opinion among the authorities consulted, some favouring the granting of a loan from currency, if the state of the market required it, at 7 or even 6 per cent., the object being to prevent stringency rather than to relieve it. However, 8 per cent. per annum was charged, and the Imperial Bank repaid the loan on 27th April, 1921.

As a result of the passing of the Paper Currency Amendment Act of 1920, the gold and sterling securities held in the Paper Currency Reserve were re-valued on 1st October, 1920, at the new rate of Rs. 10 to the sovereign, or one rupee for 11·30016 grains of fine gold. This obviously created a deficiency in the Reserve, which was made up by 12 months' Treasury Bills of the Government of India issued by the Controller of the Currency to the Reserve.

Another interesting announcement was made by the Government of India on 15th November, 1923, to the effect that a transfer had been made of £2,000,000 of gold from the Indian Paper Currency Reserve against a corresponding transfer to the reserve of sterling securities. This operation was undertaken in connection with the proposal to sell this amount of gold in India. The gold was for sale in weekly instalments, the amounts to be sold being regulated by market conditions. It was at the same time pointed out that the gold would not be exported, but would be sold in London for delivery in India from the Mints at Calcutta and Bombay against payment in sterling. In commenting upon this operation

*The Times* said—"The Currency Department can well afford to sell a small quantity of gold against payment in sterling, especially as thereby it will kill two birds with one stone. It will add a corresponding amount to the sterling resources of the Secretary of State in London with which to meet his obligation here, while securing a good profit out of the existing and increasing premium on gold. Further, the Government will be converting a small portion of its non-interest bearing surplus metal holding into interest-bearing securities. The gold can be replaced with profit as sterling approaches parity with gold. A convenient opportunity will then arise for reversing the present operation."

Finally, in connection with the management of the currency in India we may refer to the issue of Indian Treasury Bills. In a way, they are indirectly of use in support of exchange ; their issue is, in effect, a contraction of the currency, since a good part of the proceeds is held in the Paper Currency Reserve. The bills were first issued in India on 16th October, 1917, and from that date to 6th June, 1922, were on sale in India, except for short intervals, in denominations of Rs. 5,000 and upwards to Rs. 10,000,000. Their usance at first was from three to twelve months, and they were sold at fixed rates. The periods and rates were subject to variation from time to time. Since 14th September, 1922, Indian Treasury Bills have been sold by tender weekly, and Intermediate Bills have also been on sale, the latter at fixed rates previously announced. The sales were suspended from 27th April, 1923, to 14th November, 1923, and since 1st December, 1923, only three and six months' Intermediate Bills have been offered. The usance of the bills offered varies from time to time from three months upwards; the rates fixed for Intermediate Bills also varies.

The amounts of bills outstanding at the end of each financial year, and on 5th January, 1924,

were as follows, the figures being in lakhs of rupees, viz.—

<i>Date.</i>	<i>Held by the Public.</i>	<i>Held in the Paper Currency Reserve.</i>	<i>Total.</i>
31st March, 1918	4357·05	—	4357·05
„ „ 1919	4284·3	640	4924·30
„ „ 1920	4289	1009	5298
„ „ 1921	4367·1	6126	10493·1
„ „ 1922	5396·7	5789	11185·7
„ „ 1923	2158·9	4965	7123·9
„ Jan. 1924	251·45	4965	5216·45

We now come to an examination of the connection between trade and currency operations, which, in view of its importance, perhaps merits a separate chapter.



## CHAPTER IV

### **The Supply of Exchange**

GOVERNMENT EXCHANGE REMITTANCES ON TRADE ACCOUNT  
—INDIA COUNCIL BILLS AND TELEGRAPHIC TRANSFERS :  
HOW OBTAINED—THE IMPORTATION OF SOVEREIGNS INTO  
INDIA : THEIR COST AS COMPARED WITH COUNCIL REMIT-  
TANCES—SOVEREIGNS OF SPECIAL TYPE : “SHIELDS,”  
“BUN-HEADS,” AND “JUBILEES”—GOLD BULLION—  
SILVER

THE Government of India, as is well known, undertakes not only the supply of currency, but also the remittances of large sums of money on trade account. The actual currency is scattered up and down the country in treasuries, and is under direct control of the finance department of the Government of India, not under local government control. The Government supplies the currency in that form and to that extent necessary to pay for the produce exported; and the Secretary of State's bills, which are cashed in Calcutta, Bombay, and Madras, are met with money from the trade at Presidency towns; while transfers are sold up country. These transfers are met from incoming revenue.

A few words will suffice to make these facts clearer.

First, there is the Secretary of State for India requiring British currency to be at his disposal in London for the purpose of meeting what are known as India's home charges, viz., payments for its purchases of bar silver, interest on loans contracted here, pensions due, and services rendered, etc.

Secondly, there exists a group of bankers, financiers, and importers of Eastern produce desirous of settling their indebtedness to India in rupees.

The heavy obligations of India to Great Britain are, so

to say, set off against the net indebtedness of trade to India, by the Secretary of State's selling for sterling in London rupee bills of exchange and telegraphic transfers payable by the Treasury in India, and by this very simple procedure both parties are satisfied: the London bankers or merchants get the right to so many rupees in India, and the Secretary of State for India receives the currency he wants for his use in England in pounds sterling.

An alternative method for the trade is to import sovereigns into India; but whether sovereigns are used or Council Bills and telegraphic transfers, it is always the Government which must eventually supply in India the many and diverse forms of currency required there.

Within India itself we find the same sort of set-off between Government and trade operations. The Indian Government in settlement of its Council remittances is under the obligation to pay considerable amounts of rupees to traders at the Presidency towns; while the traders, for their part, have to pay for produce up country, where also the greater part of the Government's revenue is collected. In effect, the operations cancel each other. The Government receives from the trade at the Presidency towns money with which it discharges the Secretary of State's bills, and sells transfers—where they are actually needed—in the interior: these it meets from its revenue receipts and, in turn, they settle the internal trade demand.

It is not necessary for us to discuss at greater length the internal trade requirements, but the system of financing the foreign trade of India by means of the India Council bills of exchange and telegraphic transfers merits a further examination.

The method at present in force is the modern replica of the system inaugurated by the old East India Company, which in its day was under the same necessity of meeting home charges in London as is the Secretary of State for India to-day.

Primarily, these London sales of exchange by the

Government of India are considered to be the central feature of the machinery by which the Indian finance and currency system is managed. The auctions form a convenient way for the Government to draw funds from India for useful trade employment in London, which funds would otherwise remain idle in the Indian exchequer; and, as we have seen, any balances not required for the home charges can conveniently be placed to Government reserves held on this side. But there is another aspect of the practice; its convenience to trade in providing a ready and effective means of liquidating the indebtedness of people in this country to people in India for the surplus of exports over imports.

The procedure adopted in these Government auctions of currency is as follows—

Every Tuesday a notice is exhibited at the Bank of England, on the authority of the Secretary of State for India, inviting tenders, to be submitted on the following Wednesday, for India Council bills of exchange and telegraphic transfers drawn on the Government treasuries at Bombay, Calcutta, and Madras. The notice states a limit which the aggregate amounts will not exceed, and tenders for either form of remittance must be for so many lacs of rupees—a lac being equal to 100,000 rupees. Each applicant specifies the centre at which he wishes the remittances to be payable. There is no obligation on the part of the Secretary of State to allot the whole amount mentioned in the notice, and, as a general rule, applications at rates lower than 1s.  $3\frac{2}{3}\frac{9}{2}$ d. per rupee for the bills and 1s.  $3\frac{1}{8}$ d. for the telegraphic transfers are not accepted. The price charged for the latter form of remittance is ordinarily higher by  $\frac{1}{3}\frac{1}{2}$ d. per rupee than that charged for bills, although when the Bombay or Calcutta bank rate is higher than 8 per cent., applications for telegraphic transfers rank for allotment with tenders for Council Bills only if they are  $\frac{1}{16}$ d. higher.

If the remitter wishes to make immediate settlement of

his indebtedness at one or other of the centres named, it is obviously to his advantage to pay more for the telegraphic transfers; a fortnight or more is lost by the time in transit of the bills, but when transfers are sent the remitter or his agent can obtain his rupees in India from the Government treasuries within a few hours after the payment of sterling into the account of the Secretary of State for India at the Bank of England. If, however, a remittance by mail will satisfy the Indian creditor, the debtor in London will apply for drafts; and as the Council has the use of his money in England for two or three weeks before the rupees are paid over in India, the reasons for paying a lower price for such remittances are apparent—due allowance has to be made for the interest on the money.

Allotment is made to the highest bidders; and when the total amount tendered exceeds the amount offered, allotment is made *pro rata*. A statement is issued each Tuesday afternoon giving the total applications, the allotments, and the amount to be offered the following week. In fact, it is commonly understood that it is only after the tenders received have been dealt with that the amount to be offered for the next week is decided upon, the main considerations being the requirements of the India Office and the strength of the demand as revealed by the tenders.

“Specials,” or, as the Government terms them, Intermediate Bills and transfers, are obtainable on other days of the week at a price fixed by the India Office at not less than  $\frac{1}{32}$ d. above the lowest “auction” rate of the previous Tuesday. If, therefore, the exchange banks and other buyers have miscalculated the price, or the probable allotment, it will often suit them to amend their offers and apply for these special allotments at higher rates, especially when they are in urgent need of either form of remittance.

The exact price and the maximum amount of these “Specials” available is fixed each Tuesday, and the information is given out at the same time as the result of the tenders is announced.

On page 25 we mentioned the sale by the Government *in India* of bills and transfers on London; these are known as Reverse Councils. The Council bills and telegraphic transfers sold in London from India's standpoint are remittances to England by the Government of India; from the London purchasers' point of view they represent the opposite operation—remittance of funds to India. But it is the other way about with the Reverse Councils; the purchasers in India actually make remittances to London, while the Indian Government by the same operation transfers funds to India—hence the name.

The bills and telegraphic transfers, London on India are in rupees, i.e. sterling is paid in London and rupees are subsequently paid out in India. The remittances, India on London, on the other hand, are in sterling; buyers pay rupees in India and sterling is subsequently paid out in London.

One other variation of these Council remittances remains to be made clear: we refer to Deferred Councils. Owing to the longer period occupied by the transit of the mails during the war, a system of deferred telegraphic transfers was introduced. These were offered as an alternative to bills and at the same rate, and are payable in India sixteen days after deposit of their amount in London.

Not many months had elapsed after the first edition of this book was published before the exigencies of war created many exceedingly difficult exchange problems for India; and, as the manner in which they were solved is of something more than academic interest, it is now necessary to give a *résumé* of the position.

In the early part of December, 1916, the weekly sales of Councils averaged over £2,000,000; and as the rupees held in the Paper Currency Reserve had then fallen to Rs. 14 crores, it became necessary, if the convertibility of the note issue was to be maintained, that a limit be set to the facilities given by the Indian Government for

the remittance of funds to India in the shape of Council Bills and Transfers. Consequently, on 20th December, 1916, the Secretary of State for India imposed a limit of Rs. 80 lakhs on his weekly sales, but raised it a week later to Rs. 120 lakhs. The sale of Intermediate (Special) Councils was also suspended. At the same time that the limit to the sales was imposed, the Secretary of State fixed the rates for Immediate Transfers at 1s.  $4\frac{7}{8}$ d., and for Deferred Transfers and Bills at 1s.  $4\frac{1}{4}$ d. At the beginning of January, 1917, these rates were increased by  $\frac{1}{2}$ d.; i.e. the rate for the telegraphic transfers was fixed at 1s.  $4\frac{1}{4}$ d. per rupee, and that for the Council drafts and deferred telegraphic transfers at 1s.  $4\frac{5}{8}$ d. per rupee.

In this connection it is interesting to note what the Controller of the Currency in India has to say on this unparalleled situation. To paraphrase the report for the financial year, 1916-17, we find that the impossibility of selling unlimited Councils created a set of conditions which inevitably tended to force rates of exchange in India up to very high levels ; there was an abnormally large balance of trade in favour of India, and, as a result, sellers of exchange greatly outnumbered the buyers, and, as there were practically no imports of gold to fill the gap, the former were obviously at the mercy of the latter. On the one hand, exporters were not inclined to worry about high rates being exacted from them so long as they could get purchasers for their bills ; the importers, on the other hand, were in the happy position of being able to remit their money to London or elsewhere at rates so satisfactory that, unless they had been born fools, they could hardly fail to take advantage of the opportunity thus afforded them.

Early in January, 1917, it became clear that rates threatened to break away and to rise to levels unprecedented since the fixing of the sterling value of the rupee at 1s. 4d. Exporters, especially those who had entered

into forward contracts based on lower exchange levels, were nervously apprehensive of their position; and those importers who were in possession of stocks, from which sales were made on a rupee basis, finding values depreciating, became greatly alarmed. The exchange banks did their best to assist the Government to maintain the equilibrium of exchange, and to stop too violent a departure from the 1s. 4d. standard, by endeavouring to come to an agreement not to sell telegraphic transfers on London above 1s.  $4\frac{7}{8}$ d. The agreement, as a matter of fact, did become operative in Calcutta, but for various reasons it was found impossible to extend its scope to other exchange centres in India, owing principally to the fact that some of the banks, having large commitments to meet in the shape of drawings from the East, were obliged to cover these by selling exchange at more advantageous rates than could be obtained from their banking competitors. In consequence of this one-sided arrangement, the Calcutta agreement could not be maintained, as, naturally, the import merchants were only too glad to play one bank off against another and to purchase exchange in the best market. By 16th January, 1917, it was abundantly clear that an agreement could not be reached among the banks and exchange broke away—the rate quoted in Calcutta for telegraphic transfers on London on that day being 1s. 5d. Exchange transactions were also reported to have been put through on the same day at as high a level as 1s. 6d.

The matter was subsequently settled in London on 22nd January, 1917, by the Secretary of State, who came to an arrangement with the exchange banks whereby they bound their Indian branches to observe rates based on 1s.  $4\frac{7}{8}$ d. for telegraphic transfers on London. As is usual in such cases, however, there were not wanting those among the general public who tried to get behind the agreement by paying high premia for exchange settlements; but an appeal to the higher patriotism of the business

community practically eliminated these hole-and-corner methods.

As the Controller of the Currency remarked, the importance of the measures referred to arose from the necessity—the vital necessity, we might say—for finding sufficient finance for those of India's exports which were of Imperial importance for the prosecution of the war. The exchange banks appreciated the situation, and undertook to give preference to the financing of such exports and to give them the first claim on their rupee resources. Incidentally, it might be mentioned that an important part of those resources consisted in the remittances made by import merchants through the banks, and hence the necessity for doing all that was possible to ensure that such remittances should be placed at the unfettered disposal of the exchange banks and not drawn off as cover for other exports not of urgent national necessity.

The remittances which the Secretary of State for India places at the disposal of trade have of late years assumed such large proportions, that trade has tended more and more to rely on the Government; consequently, the dislocation of the mechanism of Government finance arising out of the war had been accentuated in the case of trade finance; and as Indian trade is probably more intimately dependent on the financial machinery of the Government than that of any other country, the financial and exchange problem was an extraordinarily difficult one.

The level of exchange at 1s.  $4\frac{5}{8}$ d. for Council Bills and 1s.  $4\frac{1}{4}$ d. for Immediate Telegraphic Transfers was more or less satisfactorily maintained until 27th August, 1917, when, owing to the continued demand for rupees and the added complexity of the silver situation, the Secretary of State found it incumbent upon him to raise the rates again to 1s.  $4\frac{2}{3}$ d. per rupee for Council Bills and 1s. 5d. per rupee for Immediate Telegraphic Transfers. Their price was based roughly on the price at which silver could be



bought, and this was the policy which governed the alterations that were subsequently made. As we know, in normal times, the funds which the Secretary of State places at the disposal of trade through his Council drawings are required, so far as the trade aspect is concerned, to settle but a portion of the surplus of exports of merchandise over imports, the excess being discharged by the import of the precious metals—gold and silver—through private agency. The position during the war was aggravated, not merely by the increased surplus of exports, but by the difficulty in effecting specie remittances. This was powerfully summed up in the speech of the Indian Finance Member (Sir W. S. Meyer), in presenting his financial statement for 1918–19; and, as he then showed, whereas ordinarily the primary object of the Secretary of State's Council drawings is to place him in funds to meet his expenditure in England, his large Council issues during the fourth year of the war were made solely with the object of financing trade. His expenditure requirements were covered nearly twice over by repayments made to him in London against war disbursements made in India on behalf of the Home Government.

Herein was the primary difficulty, which arose from the extent to which, owing to these war transactions, Indian resources had been transferred to England. In ordinary times this difficulty would have been surmounted by the Government, as it would have been met by the banks, principally by the import of specie. During the war it was neither practicable nor expedient to fill up the void wholly in this manner, but other and alternative methods were adopted which were nearly as efficacious.

The other aspect of the difficulty was the great demand for Indian products and other services, which resulted in the transfer of funds from India to England, and also necessitated the issue in India of a large amount of currency to pay for such products, etc. Then there was the usual rise in prices following the demand; this also affected

the amount of currency required. Part of the demand for extra currency was met by an increase in the note issue, but concurrently with this was a heavy demand for silver rupees. In rather less than two years, 67 crores in all of metallic currency was put in circulation. There was, as it happened, in the year 1916-17 a record coinage of rupees in India and, as the figures are interesting and instructive, we give them—

There were coined—

Of Rupees . . . .	Rs. 29,89,00,266
„ Half-Rupees . . . .	30,39,137
„ Quarter-Rupees . . . .	32,94,581
„ Eighth-Rupees . . . .	24,73,342
	<hr/>
	Rs. 30,77,07,326
	<hr/>

say, £20,513,821.

The requirements for silver by the Indian Government were, therefore, large and increasing, and unhappily this demand for the metal coincided with a similar demand for silver from other countries, where a similar expansion in the silver currency circulation was taking place. Added to this, the price of silver was steadily advancing, and for a long time before the Government took action it had stood at a level at which the bullion value of the rupee exceeded its value as coin.

There was an element of danger in such a situation, and to meet the advance in the price of silver the alteration in the exchange value of the rupee to which we have referred (i.e. to 1s.  $4\frac{2}{3}$ d. for bills and 1s. 5d. for telegraphic transfers) was put into force. The immediate necessity for this measure, it was stated, arose out of the fact that it would have been unjustifiable for the Government to undertake, at material loss, the supply of the large amounts of new rupee currency then required.

Of course, whenever the bullion value of a silver coin in India and the East is above its exchange value by reason of the high price of silver, there is always an

irresistible temptation for the natives to melt and export the coins, and seemingly no amount of prohibitory legislation is able entirely to stop this. In such circumstances, the best safeguard, as in India's case, is to fix exchange value of the coins at such a point as to make their melting and export unprofitable.

No further alteration was made in the exchange value of the rupee as expressed in the rates at which Council bills were sold until the 10th April, 1918, when, in consequence of an agreement made with the Government of the United States for the purchase of silver from the dollar reserve there at 101½ cents per ounce fine, an announcement was made that Immediate Telegraphic Transfers were henceforth to be sold at 1s. 6d. per rupee, and Deferred Transfers and Bills at 1s. 5 $\frac{2}{3}$ d. per rupee. This level was maintained until 13th May, 1919, when the removal of the American control over silver led to an increase in its price and necessitated a further rise in the rate for Councils to 1s. 8d. for Immediate Telegraphic Transfers. A continuous upward movement in the price of silver soon led to further alteration. On 12th August the exchange for Immediate Telegraphic Transfers was raised to 1s. 10d., on 15th September, 1919, to 2s., on 22nd November, 1919, to 2s. 2d., and on 12th December, 1919, to 2s. 4d. Thus during the period from 3rd January, 1917 to 12th December, 1919, there was a raising of the rate of exchange by successive steps from 1s. 4d. to 2s. 4d. The selling of Council Bills and Telegraphic Transfers, London on India, ceased on 5th January, 1920, and was not resumed until 9th January, 1923.

In general practice, two things may be said to govern the cost of India Council remittances: the greater or less need of the Indian Government for gold funds in London, and the total indebtedness of the outside market to India. Before the war, if the Secretary of State was in no immediate hurry for sterling in London, he would endeavour to exact a high price for his remittances; and, the intensity

of the demand from the trade often led to a good rate being obtained. The Government's limit to sales was fixed arbitrarily by the amount offered, and the price was to a certain extent under its control ; but, even if the demand increased, it was not found possible to go on week after week raising the rate. What might be called the remitters' limit was reached when the price for Councils reached gold export point—then 1s. 4½d. per rupee. When that rate was reached, bankers and others were led to consider whether the business could not be worked on another and cheaper method.

That was the position before the war, and, as the market's operations are interesting, we may be permitted to investigate the matter on the assumption that no impedimenta in the way of gold exports from various countries exist.

*Revenir à nos moutons*, then, there were only two ways, apart from telegraphic transfers, of procuring rupees from the Government in India : a banker or merchant could present Council drafts, purchased in England at varying rates per rupee, or tender sovereigns in exchange for rupees at the fixed rate of 1s. 4d. Consequently, the problem resolved itself into a comparison between the price the India Council was asking for its drafts in London and the laying-down cost of sovereigns in India.

The expression "laying-down cost" means the cost of sovereigns, plus all shipping and other charges incidental to gold consignments.

The exchange banks and other remitters are willing to buy the bills up to a certain point—the figure at which their price equals the cost of sending gold to India. But if, on the one hand, the financial position of the Indian Government in London is such as to admit of its demanding high rates for bills, or, on the other, it fails to gauge the exact price which will suit buyers, the cost of the paper will cease to be attractive, and it will sometimes pay the banks better to send sovereigns direct to India to be exchanged for rupees at the Government

currency offices than to compete for the allotments of Government paper. In pre-war days that point was reached, as we have said, when the rate for bills was in the neighbourhood of 1s. 4½d.

The sovereigns sent to India, except those of a special type, to which reference will be made later, were not always shipped direct from London. Egypt, as is well known, used to take a large quantity of the coins each year from this country for the purpose of financing the movement of her autumn cotton crops, and, as soon as the dealings were completed, there was a considerable surplus of sovereigns available for re-export. Prior to the closing of the Indian Mints in 1893, these sovereigns used to return to London; but when the demand for gold in India became constant, there was a tendency for the sovereigns to be kept in Egypt awaiting offers from the exchange banks or any other buyer interested.

The Egyptian market was not the only source of supply ; sovereigns were also obtained from Australia, but with this difference. The amount Egypt had for sale was dependent upon the quantity she imported from London, and this again was governed by the prospects of a good or bad cotton crop. Australia not only produces her own gold, but also coins sovereigns in her own mints, and the supply there depends upon the exigencies of the wool season; if the sheep farmers are successful, a large quantity of wool will be on offer, and the sovereigns will be required to finance the export trade; but with a dry season and the resulting hardships from the drought, the Australian demand will be poor and sovereigns are again available for export to India.

It may be remarked, in passing, that the Australians used to regard this business in sovereigns merely as a second string to their bow ; their first care was to provide for the wool bills and, what we ought to have mentioned earlier, bills drawn against grain exports, and not until these failed to call for all their funds would the banks consent to entertain offers for sovereigns.

The Australian exports of sovereigns were thus largely affected by seasonal influences, of which the principal were the wool and grain exports. The wool season commences in October and lasts until February, and the grain exports also continue for about the same period, so the Indian banks were able to judge pretty accurately when sovereigns were likely to be on offer in that quarter.

Transactions in the coins were arranged in London between the banks concerned; and quotations, as with every other commodity, were governed by the ordinary rules of demand and supply. In the case of Australian sovereigns, there were two prices: one calculated on a telegraphic transfer basis, and the other on a sixty days' sight basis. If the requirements of the Australian banks for the purchasing of wool and grain bills were small, the London branches would be prepared to offer, say, 50,000 sovereigns at 5s. per cent. discount, which, being interpreted, is, that on delivery of the coins to the buyer's agent at, say, Fremantle, the Indian or other exchange bank in London would, on receipt of telegraphic advice of shipment, pay the Australian branch bank in London £50,000 less 5s. per cent. discount (£50,000 less £125 = £49,875).

Now, if we calculate the cost of shipping these coins to India, we shall be able to see how their price compares with that of India Council Bills.

In pre-war times, sovereigns could be despatched from Australia to Bombay or Calcutta at approximately 12s. per cent., which included the freight, insurances, charges for packing, and brokerage. For the purpose of our calculation, we will take the mean rate—11s. 6d. per cent.—and, assuming that we are dealing with the above-mentioned parcel of £50,000, the coins could be laid down in India at a rate of exchange equivalent to 1s. 4·052d. If the sovereigns had been sold at par, the out-turn would have been 1s. 4·092d. In each of these calculations, however, we have neglected interest, which the bank purchasing the sovereigns must necessarily take into account, and

this interest will increase the cost of the remittance slightly.

Dealings on a sixty days' sight basis need a little further explanation. The sovereigns were, as in the former transaction, delivered to a certain port and, immediately shipment was made, mail advice of that fact was sent to England. On arrival of this notification in London, the Indian or exchange bank accepted what was, in effect, a *pro forma* bill for the amount due, which would then be paid on the expiry of the sixty days, plus the usual three days' grace. In this case, as the Australian banks parted with the money some two months before payment was made, a higher charge was made for the sovereigns.

The whole affair was really an exchange operation, ultimately governed, in the case of Australia, by the cost of laying down funds in London; the higher the cost of money on the London market, the better (or "worse," whichever way the reader likes to regard it) was the rate of discount which the Australian banks allowed the buyers of sovereigns, and *vice versa*.

It costs rather less to ship sovereigns from London, but the reader is not advised to try to procure the coins at a discount on the London market; he is not likely to meet with much success. However, the ante-bellum shipping cost is interesting to know: it amounted to about 9s. per cent., which, again neglecting interest, would give a laying-down cost in India of approximately 1s. 4·073d.

Business with the Egyptian banks was governed by similar considerations, and in each instance due regard was paid to the necessity for receiving funds in London the moment they were needed.

In making these comparisons between the cost of Council remittances and the cost of laying down sovereigns in India, the banker had many points to consider; but the principal items, besides the prime cost of the sovereigns, to which he had to give heed, were always the freight and other shipping charges, insurance, and interest on his

money for the various periods; and if with these additions the gold laid down in India at rates fractionally lower than the price of Councils, the banker would choose the cheaper form of remittance.

He might go even a step farther. He could judge from the financial position of the Indian Government, as revealed by the periodical statement published in the Press, the price at which the Council drafts were likely to be sold in future; and then endeavour to make forward purchases of sovereigns at more profitable rates, in the same way as the foreign branch banks deal in forward exchange.

It should be noted that, as a general rule, it is not the banks which distribute the coins in India. When the gold arrives, the banks usually tender it to the currency offices and receive in exchange rupee notes. When the demand for currency arises, the banks return the notes to the Treasury and receive in exchange currency in the particular form in which it is required for trade. There is, however, justification for the statement that sovereigns are imported for the express purpose of obtaining currency in India, but it must also be remembered that the amounts imported are governed by other and more varied considerations. The coins are not necessarily sent to India for immediate use as a circulating medium; as we have explained, they go into that country when they happen to be the cheapest form of remitting funds. Therefore, when studying the statistics of gold imports into India, it should be borne in mind that, to a certain extent, the figures indicate the general condition of the foreign exchanges, say, between Australia and London, Egypt and London, and India and London, and at the time these pages are being revised the premium on sovereigns makes them an expensive form of remittance.

Having learnt that the net indebtedness of trade to India is met chiefly in these two ways—by the purchase of Council Bills and Telegraphic Transfers, and by the import of sovereigns by the exchange banks—the patient



reader may wonder why, at the same time, we have taught him nothing about the shipments of gold bullion and sovereigns of a special pattern. The reason is that imports of gold in this form have nothing to do with exchange operations: they merely serve to fill a genuine industrial demand.

To take the gold bars first: these are not imported in connection with currency operations, but are sent in response to the demand for gold for use in the arts and for other ornamental purposes. The gold bars of international commerce weigh 400 oz. each, and these the Bank of England will purchase at 77s. 9d. per ounce standard; but the gold bullion imported into India is principally in small bars, weighing 5 and 10 oz., and the bars as such are greatly in request in the bazaars by the hundred-and-one native dealers found there. The bars most in demand from London are the 10-oz. ones: they are specially manufactured (highly polished) and bear the "chop"<sup>1</sup> of the importing bank, together with the stamp of the London bullion brokers. Before the war, the minimum cost in London was 77s. 10 $\frac{3}{4}$ d. per ounce standard, i.e. per ounce of gold  $\frac{1}{12}$ ths fine; the pre-war freight was  $\frac{1}{2}$  per cent.; interest for the ocean journey (22 days), say, 5 per cent. =  $\frac{5}{16}$  per cent., plus incidental charges, packing, insurance, etc.: so by the time they reached the native the bars were rather costly ornaments. Causes arising out of the war, too, have raised the price of gold to unprecedented levels, and at the 31st December, 1923, the quotation in London was no less than 95s. 4d. per fine ounce (i.e. pure gold). The market price of gold, as we shall show later, is now measured by the movements in the New York-London rate of exchange. The gold bars contain a minimum of 99 per cent. pure gold. In addition to the 10 oz. bars, India is also a large buyer of bars weighing 100 oz., 200 oz. and 400 oz. Shipping and other charges are now (1923) approximately one per cent.

<sup>1</sup> "Stamp or die."

Prior to the war shield sovereigns and half-sovereigns were also shipped to India in much the same way as any other commodity, and they commanded a premium on the London market, because the demand was largely in excess of the supply. They were in special demand in India for ornaments, and for that reason could be sold for a good deal more than their monetary value. They were not tendered direct to the currency offices on arrival, but were disposed of direct by the banks who generally had orders in hand from their native clients.

The shield sovereigns are so called because they bear the Victorian effigy on the obverse and a shield on the reverse. The native purchaser is, it is said, averse from using the "dragon" sovereign as an ornament, because he believes the dragon to have been a sacred animal, and as such could not have been killed by St. George, which may or may not be true; but the fact remains that the Indian native is always ready to pay a premium for the sovereign bearing the shield device on it, and at the present time a very high premium is obtainable for these coins.

Other types of coin commanding a premium in London for shipment to India are the "bun-head" and "Jubilee" sovereigns. The former are so called because the head of Queen Victoria appears on the obverse with the hair dressed in the shape of a bun, while the latter are the coins which were specially struck to commemorate the great Queen's jubilee.

The value placed upon these coins of special design is obviously purely a sentimental one; but, as the coins never return to circulation and no more are being minted, we may look upon the "trade" as a dying industry; and the greater the absorption of the sovereigns, the higher will be their scarcity value.

No figures exist as to the exact amount of these coins passed into India, nor of the precise number minted: it is, therefore, impossible to say how long the supply will

last, but it is perhaps of interest to record that from the years 1838 to 1870 the number of gold coins struck bearing the Victorian effigy and the shield reverse was—

Sovereigns	.	.	.	.	•	.	128,203,324
Half-sovereigns	.	.	.	.	.	.	36,161,902

From 1871 to 1874 the “ shield ” and “ dragon ” designs were used concurrently, and no information as to the respective numbers issued is available.

We have written at considerable length upon this question of the supply of exchange for India, because some misconception seems to exist upon the subject; but we had better stop at this point, lest the long-suffering reader be tempted to exclaim: “ The author has stolen from blind Crispinus this eternal scroll,” so, without further ado, we must turn our minds to another aspect of the question—silver.

Silver, of course, is chiefly imported for currency purposes, a very large amount being required for the rupee circulation. The total imports of silver from all countries in 1913-14 were 79,834,999 oz. and the value £10,142,161, against 4,593,163 oz. of gold valued at £18,817,605. As in the case of gold, the bulk of the silver is imported from the United Kingdom, and about half is imported on Government account and half on private account. As we have seen, until comparatively recently silver took the same place in the Indian currency system as gold occupies in the British system; even now the natives are so accustomed to the metal, and their everyday transactions are often so small in amount, that we may say that silver rupees are well suited to their use.

The silver, which is not produced locally in any appreciable quantity, is imported mostly as bullion; and, although a large amount naturally finds its way to the Government mints for the rupee coinage, a considerable

proportion is also taken in the shape of small bars for sale to native dealers in the bazaars, whose trade is chiefly with the native jewellers. The jewellers make use of the silver bullion for the manufacture of ornaments, for which there is a constant demand from the natives; and in times of famine, rather a large number of these silver ornaments, which are then found to come out from the native hoards, eventually find their way, *via* the ever-present money-lender, to the mints where they are cast into the melting-pot. India has been described as the sink for the precious metals, and the manner in which both gold and silver—ornaments as well as bullion—disappear into the hoards is sufficient testimony to the truth of the statement.

The consumption of imported merchandise, owing principally to the habits of the people and their standard of living, is limited, and a considerable proportion of the excess of exports over imports must of necessity be taken in the form of gold and silver; but, in addition to the demand for silver rupees in connection with the export trade of the country, there are other times when the demand for silver is very keen. A case in point is the demand which occurs in the Indian marriage season. Practically all the natives, whatever their caste, endeavour to make a lavish display of ornaments which call for much silver. Then there is the usual great Tomasha (feast) to be supplied for the thousand-and-one relatives and followers, all of which means a heavy expenditure of token currency, to say nothing of any dowry in the shape of gold and silver ornaments which may be forthcoming from the bride's father at the time of giving away, if the bridegroom is fortunate enough to secure within his own caste a female with parents of means—he may never marry out of his caste. The marriages all take place about the same time of the year (generally about May), as the natives—especially the Hindus—consider certain periods more auspicious for marriages than others, and the total cost

of the many ceremonies must be very great.<sup>1</sup> These facts are well known to bullion dealers, exchange banks, and others; consequently preparation is made to meet the demand which occurs with unceasing regularity. The Government, too, is generally well prepared with token currency, and the coinage is often very heavy, account having to be taken of the immense number of coins which disappear into the native hoards. To take rupees alone, in 1912-13 the number coined was 187,529,154 and, in 1913-14, 121,360,506, to say nothing of half-rupees and other smaller coins. In 1905-7 the Indian Government added rupees to the value of £42,000,000 to their token currency—probably the heaviest coinage in the history of the world. During the financial year 1919-20 the rupee coinage amounted to 5,079 lakhs, equal to 190½ million ounces of standard silver.

Operations on the London silver market are carried out on the basis of so many pence per standard ounce; and, prior to the war, silver was bought and sold in three ways: for cash, for shipment, or forward. Brokers selling silver for cash were entitled to claim payment the next day; a sale for shipment was payable on the day of delivery to the steamer—say, Wednesday; while for forward silver, payment was due two months after date of contract. During the war, however, sales were made only on a cash basis. In India, although the contracts are not infrequently stated in sterling, it is considered preferable to deal in bars of standard weight. In London, an exchange bank or other dealer may purchase, say, £10,000 bar silver, and will receive an invoice in ounces at so much per ounce; it matters not how many bars the shipment contains as long as £10,000 worth of silver is delivered.

<sup>1</sup> By Hindu caste custom it is necessary for the bridegroom, or his father, to give gold and silver ornaments to the bride at the time of marriage. These ornaments are called "Stree-dhan," which means, the "woman's property." They are in the nature of a marriage settlement, and are the absolute property of the woman, who preserves them with great care.—*Cf.* Appendix XXXIII, Indian Finance Commission, 1914.

In India, Bombay, or Calcutta,<sup>1</sup> when silver is bought or sold in "bars," the number of bars contracted for must be delivered, and payment is made according to the weight in tolas. The standard weight of a bar of silver in India is 2,800 tolas (1,050 oz.); but British, Australian, or American bars are good delivery there if they weigh about 1,000 oz. and are 996 to 999 fine.

Presuming the silver to have been purchased in London and shipped, say, to Bombay, the reader may wonder how the exchange (the price for the silver to be paid in India) is calculated. Silver dealings in India are on the basis of rupees per 100 tolas 998 fine; and to get at the equivalent of the London price, operators take as a starting-point for their calculations a constant derived from a series of simple equations worked out by chain rule.

The following formulae, given by Mr. Nilkanth Gopinathjee in a book of *Indian Silver Tables*,<sup>2</sup> show the constants by which most of the Indian and exchange banks, bullion brokers, and silver dealers work—

(1) *Neglecting Charges and Interest.*

Rupees ?	= 100 tolas @ 998
If tolas 1,000 @ 998	= 998 tolas fine
Tolas 8	= 3 oz. fine
Oz. 222 fine	= 240 oz. standard
Oz. standard 1	= London silver price (pence)
T. T. exchange on London	= Rupee 1

$$= \frac{100 \times 998 \times 3 \times 240}{1,000 \times 8 \times 222} = 40.46 \text{ constant.}$$

(2) Including charges and brokerages, but neglecting interest—  
gives a constant 40.8.

It will be noticed that the uncertain quantities in these calculations are the telegraphic transfer exchange on London and the price of silver in the London market: either or both of these factors may vary from day to day. Having the "constant," it is, of course, always quite easy

<sup>1</sup> Bombay is the great silver market of India, Calcutta's operations being very small in comparison.

<sup>2</sup> British India Press, Bombay.

to find the Indian equivalent of a London price by setting out the calculation in this form—

$$\text{Constant} \times \frac{\text{London silver price}}{\text{T.T. exchange on London}}$$

For example, if the London price of silver be 30d. per standard ounce and the exchange for telegraphic transfers on London 1s. 4d., and we want to get the Indian price (plus charges and brokerage), we take—

$$\frac{40.8 \times 30}{1 \text{ \& } 16d.} = 76.5$$

(i.e. Rs. 76.5 per 100 tolas of silver delivered in Bombay). Neglecting charges, the price would be 75.862 rupees.

The reason that the first formula is given without charges is because the latter vary, especially in war time; and in that case it is easier to add the charges than to bother about working out the sum again.

As a matter of fact this silver question is of vital importance to India, and the serious effects on exchange caused by the ever-rising price of the metal, during and following the war years, eventually culminated in the appointment of still another Commission to report on Indian exchange and currency. The committee was appointed on 30th May, 1919, and the terms of reference were: "To examine the effect of the war on the Indian exchange and currency system and practice, and upon the position of the Indian note-issue, and to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required; to make recommendations as to such modifications, and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and to ensuring a stable gold exchange standard."

In the course of their investigations the committee found that in the years in which India's currency difficulties were most acute, 1916-17, 1917-18, 1918-19, the average

balance of trade in India's favour, viz., £59,601,100, was decidedly in excess of the average for the last three years of the pre-war period. Then the large balance of trade in India's favour was reflected in the strength of exchange and the heavy demand on Government for currency. Other special causes served also to intensify this demand. There were exceptional disbursements on behalf of His Majesty's Government in connection with military operations in Mesopotamia, Persia, and East Africa, and, in addition, arrangements were made for financing various purchases in India on account of certain dominions and colonies, and for the provision of rupee credits for American importers of Indian produce. These exceptional disbursements all came on top of an already heavy demand for Indian currency.

In the ordinary course of events this demand might have been met by gold imports, but owing to war causes there was the difficulty of obtaining gold. London was no longer a free market for the metal, and restrictions were placed on exports by practically every European country. Consequently, India was able to obtain only very limited quantities. In the circumstances it was not surprising that the dearth of gold caused a strong demand for silver. Silver, however, was also in short supply and, as we state elsewhere, was under control. The average mine production of silver for the four years 1914-17 was only 178,075,000 fine ounces, as compared with 228,552,000 ounces, the average for four years 1910-13. Everything in fact, militated against the flow of either gold or silver to India, with the result that the burden of liquidating the ever-increasing balance of trade became focused on the Government of India, and took the form of heavy demands for Indian currency. To meet the demand over 300,000,000 standard ounces of silver (i.e. silver 925 fine) were bought between April, 1916 and March, 1919 for rupee coinage. In addition, 200,000,000 ounces of fine silver were purchased from the American Government under the Pittman Act,



to which we refer in our chapter on silver. How unprecedented was the absorption may be gauged from the fact that in a previous period of intense and continuous demand (April, 1904 and March, 1907) the purchases amounted to only 180,000,000 standard ounces of silver.

The effect of these various factors was, naturally, a continuous rise in the price of silver, and this in turn reacted, as we have seen, on exchange. Just how the position stood at the end of December, 1919, when the committee ended its labours is best described in the following extract from their report—

“ It is necessary at this stage to refer to another factor tending to raise the price of silver in the London market. During the war arrangements were concerted between the British and American Governments under which the sterling exchange on America was “pegged” at \$4.76 $\frac{7}{16}$ . Government support of exchange was withdrawn on 20th March, 1919, and since that date the London-New York exchange has moved heavily against the United Kingdom. On 17th December the £ sterling was equivalent to only \$3.83 as against its par value of \$4.8666. As America is the principal source of the world’s silver supply, the chief payments for the metal have to be made ultimately in that country. The sterling price of silver accordingly takes account of the state of the London-New York exchange, and any rise or fall in that exchange is reflected in the London price. A fall in sterling exchange has thus the effect of raising the London quotation for silver. For any given sterling value of the rupee there is a corresponding sterling price for silver, above which silver for coinage into rupees can only be purchased at a loss. If, without any change in the gold price of silver as measured in dollars, the London quotation should rise in consequence of a fall in the London-New York exchange, purchases of silver for India may be rendered impracticable unless the rupee exchange is raised to redress the fall in sterling. The position may be made clear by an illustration. If the

exchange value of the rupee is 2s., the Secretary of State can buy silver for coinage into rupees without loss at 63d. per standard ounce. If the London-New York exchange fell 10 per cent., the sterling quotation for silver would, *ceteris paribus*, react in proportion, and assuming that the price stood at 63d. before the fall in American exchange, it would rise to over 69d. as the direct consequence of the fall in exchange. If in these conditions the Secretary of State wished to purchase silver for coinage without loss, it would be necessary for the rupee exchange to be raised to about 2s. 2½d."

It is plain then that the maintenance of the pre-war currency and exchange was well-nigh impracticable. The Secretary of State for India was unable to continue to offer to sell Council Drafts without limit of amount, while, as we have seen, the rise in the price of silver to a level higher than that which corresponded to a bullion value of 1s. 4d. for the rupee necessitated his raising the rate of exchange at which he sold the limited amount of Councils he was able to offer.

We have already referred to the variations in the rate of exchange at which these bills were offered. It remains to be added that the Secretary of State also announced that he would be prepared to sell "reverse" immediate telegraphic transfers at an exchange of 2s. 3⅔d. if the demand for them should arise.

The gold position was also the subject of anxious care on the part of the Indian Government, for, to quote again from the report of the committee, in view of the shortage of silver it was important that the Government stock of gold should be as large as possible. With this object an Ordinance was issued on 29th June, 1917, requiring all gold imported into India to be sold to Government at a price which, being based on the sterling exchange value of the rupee, took no account of the premium on gold as compared with sterling. The gold so obtained was placed in the Paper Currency Reserve as a backing against the

issue of additional notes. To enable the gold bullion and foreign coin held by the Government of India to be converted into sovereigns without the delay involved by sending it to Australia for coinage and return, a branch of the Royal Mint was opened in Bombay in August, 1918. Pending the establishment of the Royal Mint, the gold mohur, a 15-rupee coin of the same weight and fineness as the sovereign, was, as we have already pointed out, minted as an emergency coin in order to supplement the stock of sovereigns available for issue as currency during the crisis of 1918. 2,110,000 gold mohurs and 1,295,000 sovereigns were coined in Bombay before the suspension of gold coinage in April, 1919, when in view of difficulties in supplying the necessary staff it was decided to close temporarily the branch of the Royal Mint.

The issue of sovereigns was stopped shortly after the outbreak of war. Owing to the demand for gold for social and industrial purposes and the restricted supply, the bazaar price of the sovereign gradually rose and remained considerably above its statutory rate of Rs. 15. This premium on gold precluded its use as currency except in emergencies, but on two occasions attempts were made to prevent a further diminution of the rupee stocks by the issue of gold. At the beginning of 1917, gold bullion of the value of about £4,000,000 was sold and subsequently sovereigns to the amount of about £5,000,000 were issued for the purchase of crops in certain areas. Again, from February, 1918, sovereigns and gold mohurs amounting to nearly £6,000,000 were issued for the financing of certain crops. The earlier issue of sovereigns was coincident with a large return of rupees from circulation, especially in those districts where sovereigns had been issued, but in 1918 the issue of gold was not followed by a return of rupees.

As we have said, during the war the amount of gold which could be obtained by India was limited by the restrictions on its export from belligerent countries. The

removal of the embargo on the export of gold by the United States Government on the 9th June, 1919, and the freeing of the market for South African and Australian gold enabled India to obtain a larger supply. From 18th July, 1919, immediate telegraphic transfers on India were offered against deposit at the Ottawa Mint of gold coin or bullion at a rate corresponding to the prevailing exchange rate, then equivalent to one rupee for 9·4168 grains of fine gold. Very little gold was obtained from this source, and the arrangement was terminated on 15th September, 1919. From 22nd August, 1919, a limited amount of immediate telegraphic transfers on India were offered weekly for sale by competitive tender in New York, the proceeds of the sales being remitted to India in gold. Towards the end of October the demand for these transfers fell off and the sales were discontinued. The amount of gold obtained in this way was about 467,000<sup>1</sup> fine ounces. Arrangements were also made for the direct purchase of gold in London, the United States, and Australia, and by 30th November, 1919, about 2,485,000 fine ounces had been purchased. Finally, on 15th September, 1919, the rate paid by the Government of India for the acquisition of gold brought into India on private account was fixed so as to include the premium on gold over sterling as measured by the dollar-sterling exchange, and the rate was varied from time to time approximately in accordance with the fluctuations of this exchange. The effect of the change in the basis of the acquisition rate was to re-establish an effective gold point, and to facilitate the import of gold in payment for exports as an alternative to the purchase of Council Drafts. The amount of gold imported on private account and tendered to the Government of India between 15th September and 30th November, 1919, was approximately 345,000 fine ounces.

In order to make a portion of the gold so obtained

<sup>1</sup> 100 ounces of fine gold is the equivalent of the gold content of 425 sovereigns.

available for the use of the public of India, the Government of India announced, at the end of August, 1919, that sales of gold would be held fortnightly until further notice, and that in each of the first three months not less than the equivalent of the gold content of 1,000,000 sovereigns would be offered for sale. The amount offered at the second sale in November was increased to 500,000 tolas (equivalent to nearly 800,000 sovereigns), and it was announced that this amount would be offered fortnightly for the three months beginning from December, 1919. The immediate effect of these sales was a considerable drop in the bazaar price of gold. The price of English bar gold fell from Rs. 32.12 per tola (Rs. 20.9 per sovereign) on 15th August to Rs. 27 per tola (Rs. 16.5 per sovereign) on 22nd September, but by the end of October the market had recovered and the price was Rs. 29.12 per tola (Rs. 18.11 per sovereign). At the beginning of December the price had again fallen to Rs. 28.5 per tola (Rs. 17.11 per sovereign). The total amount of gold sold up to 30th November amounted to about 2,159,000 tolas, being the equivalent of the gold content of about 3,439,000 sovereigns.

Considerable attention had also to be given to the Government paper currency, and steps were taken to increase the fiduciary portion of the note issue from time to time, while further issues were made of notes of small denomination, Rs. 2½ and 1 rupee. At first these new notes were not much liked, but since their circulation has increased rapidly.

These, in brief, are a few of the principal factors of the great problem with which the Indian Currency Committee of 1919 had to deal, and we may now pass to a summary of their conclusions and recommendations.

First, it must be remembered that one of the main objects of their inquiry was the re-establishment of stability, but, as they pointed out, for current operations of trade, stability is an important facility rather than an essential condition. As stated in the report there are

many instances, including that of India herself before the closing of the mints, which show that trade has flourished, and can flourish, even though there is a fluctuating exchange. Naturally, the conditions are somewhat more speculative, but the difficulties which arise, although great, are not insuperable, especially in countries like China where the exchange banks are not slow to supply the machinery to enable the merchant to cover his risks.

This is specially true of day-to-day fluctuations of exchange of moderate scope. If the movements are of greater extent and produce large changes in the basis of relative values, a different set of considerations comes into play. For a time, at any rate, a large rise in exchange tends to stimulate the import trade and to impede the export trade, while the reverse effect is produced by a fall in exchange. If exchange is made stable at a new level, the committee said, they believed that these effects are in the main transitory, and do not continue beyond the period necessary for wages and other elements of cost to adjust themselves to the new conditions. But this process of adjustment is a difficult and sometimes a prolonged one, and causes severe strains in the social fabric.

The committee also considered the question in relation to the movements of capital, and, as they pointed out, stability is a necessary condition for the free investment of external capital in India as well as for the protection of capital already invested. The effect on new investments may be less important in the next few years, since it is to be anticipated that Indian capital will play an increasing part in the development of Indian resources, and that owing to the urgent demands arising in the United Kingdom and elsewhere, the supply of external capital available for India may be comparatively small. These observations refer more particularly to permanent or long-term investments ; but they are also true as regards the more liquid employment of money. A stable exchange will facilitate the free movement of funds to and from India, and thus

assist commercial finance and tend to avert temporary stringency.

The committee's remarks on the effects of official action or control are interesting. They said whatever the evils and inconveniences of instability may be, they are increased if the movements of exchange are brought about not by the automatic action of economic causes, but by administrative acts. The commercial community are prepared to deal with fluctuations in exchange as well as with fluctuations in the other elements entering into a transaction, and to provide against any risks that may arise ; but they feel that if official action intervenes to interpret the play of natural forces and to give effect to them, an element of uncertainty is introduced which is beyond their reckoning. However complete the integrity and however great the intelligence on which official action is based, an automatic system, which does not depend upon such action for its operation, is greatly to be preferred.

Their conclusion, therefore, was that a stable level of exchange gives the most healthy condition for production and trade, and for the employment of capital, and that large changes in the exchange value of a currency are an evil which should be avoided so far as possible ; but if a large change has taken place it may be preferable to establish stability at the new level rather than to submit to the further change which is necessary for a return to the old level, especially if the former course shortens the period of uncertainty.

They therefore recommended that the object of the Government should be to restore the stability of the rupee and to re-establish the automatic working of the Indian currency system at as early a date as practicable. Further, the stable exchange relation to be established between England and India should be with gold and not with sterling, and, finally, that the gold equivalent of the rupee should be sufficiently high to give assurance, so far as is practicable,

that the rupee, while retaining its present weight and fineness, will remain a token coin, or in other words that the bullion value of the silver it contains will not exceed its exchange value.

The stable relation recommended to be established between the rupee and gold was ten rupees to one sovereign, or in other words at the rate of one rupee to 11·30016 grains of fine gold both for foreign exchange and for internal circulation. The Government accepted these recommendations, and with effect from 2nd February, 1920, the exchange value of the rupee was fixed at ten to one sovereign or, to state it another way, the acquisition rate for gold tendered by private importers to the Government of India under the Import of Gold Act, which had previously varied, and from 12th December, 1919, to 1st February, 1920, had been at the exchange of Rs. 11 for one sovereign, or one rupee for 10·273 grains fine gold, was now definitely fixed at 11·30016 grains of fine gold.

This, of course, was a direct and frank recognition of the fact that while the rupee in terms of gold had depreciated, the pound currency had depreciated, and, as a matter of fact, the committee did consider very fully whether the rupee should be fixed in relation to gold or to sterling. Then again, the future aspect of the silver market had to be taken into consideration. All the information the committee had at their disposal pointed to a high level of price for the white metal being maintained for some years after 1919. Owing to the very important influence exercised by America over silver it seemed unlikely that the price would fall below one dollar per ounce fine, and, as they argued, even when the "dollar-sterling exchange" returns to par, it will be impossible to mint rupees without loss from silver purchased at this price unless the exchange value of the rupee is fixed at 1s. 6d. or some higher figure.

It is, the committee said, difficult to form any conclusion as to the maximum beyond which the price of silver is unlikely to rise. When the exchanges are at par, the prices



of silver at which the principal silver coinages of the more important countries have a bullion value equivalent to their nominal value are as follows—England, 66d.;<sup>1</sup> France (5 franc piece), 60½d.; U.S.A. (dollar), 59½d. If the price of silver were to remain for any long period at a level substantially over that corresponding to the above figures, it would threaten the silver coinages of France and the United States with the risk of depletion by melting and export, and would also offer inducements to these countries to convert their silver reserves into gold at a favourable rate. In support of this view, they referred to an announcement made in December, 1919, that the American Treasury had decided to sell to certain American banks established in the Far East silver obtained by melting the available dollars then in their possession (some \$55,000,000) at their gold equivalent of 129.29 cents, plus melting, insurance, and shipping charges, whenever that price could be obtained, the intention, presumably, being to prevent silver rising to a point which would lead to the melting down of subsidiary coin. When the price of silver is 137.8 cents per fine ounce, corresponding to 62.9d. (gold) per standard ounce, and therefore well above both the French and the American parity, the corresponding bullion value of the silver in the rupee is 1s. 11.36d. (gold), and the cost of the rupee (including all charges) is approximately 2s. (gold). The committee's contention, then, was that if the exchange value of the rupee was fixed at a figure not lower than this, there would be substantial ground for holding that the rupee could be established as a token coin, and the maintenance of a satisfactory monetary circulation in India assured.

What they had in mind was evident. They realised that strong forces would come into operation to prevent the price of silver rising to a point which would cause the

<sup>1</sup> This does not take into account the Coinage Act, 1920 (10 Geo. V, ch. 3) which reduced the fineness of silver in our coins from .925 to .500, and thus increased the coin value of the silver to 122.1d.

bullion value of the rupee to exceed 2s. (gold). If, however, contrary to expectation, the price of silver should rise for more than a brief period to such a point, the committee held that the situation should be met by all other available means other than by impairing the convertibility of India's note issue. They suggested that, in the event of such a rise in the price of silver, the Government might diminish demands upon them for currency by reducing as far as possible the sale of Council Bills and recommended them to rely on the free import of gold and silver to provide alternative means of remittance. The Government would, says the report, "naturally endeavour to meet the demands for metallic currency by the use of gold and abstain as far as possible from purchasing silver. If in their judgment it should be absolutely necessary to purchase silver, they should be prepared to purchase even at a price such that rupees would be coined at a loss."

The ratio of Rs. 10 to one sovereign, recommended both for foreign exchange and for internal circulation, came into immediate effect as far as external exchange was concerned, but during the transitional period the Secretary of State for India deemed it advisable to retain the previous legal tender rate of Rs. 15 for one sovereign for internal circulation. Sales of gold bullion to the public in India were, however, continued, and as these sales by the Government proved successful in reducing the premium on gold in India, steps were taken to develop this line of least resistance until the way was clear for the necessary amendment of the Indian Paper Currency Act and the Indian Coinage Act, by which the sovereign is made legal tender in India for Rs. 10 instead of Rs. 15.

It was on the 11th February, 1920, that the Government of India cancelled the notification under which holders of sovereigns and half sovereigns were enabled to obtain rupees in exchange from the Reserve Treasuries and the mints.

The committee were also in favour of the removal of Government intervention in the free flow of the precious

metals to and from India as soon as practicable. As they said, the import of silver was prohibited at a time of abnormal demand for currency and limitation of supply with the object of preventing private buyers in India from competing in the silver market, with the Secretary of State. It is difficult to estimate how far the removal of their competition had facilitated the silver purchases of the Secretary of State during the preceding two years. The evidence taken by the committee suggested that, in spite of the prohibition of the melting of silver coin, the melting of rupees had taken place on a large scale. When the bullion value of the rupee approximates closely to its exchange value the most economical method of obtaining silver in India is by melting coin. In so far as the demand for silver for social and industrial purposes, enhanced by the scarcity of gold, had been met in this way, the effect of the prohibition of private imports was to increase the amount of silver which the Secretary of State had to purchase. If the restrictions on gold are removed the demand for silver may be expected to decrease, but a considerable quantity will always be required for social and industrial purposes. The disadvantages of meeting the public demand through Government agency by the indirect and expensive method of issuing additional currency were stated to outweigh any advantage which might be gained in respect of the Secretary of State's purchases. The removal of the prohibition on the import of silver as soon as is convenient was therefore recommended, and on 11th February, 1920, the announcement was made that the prohibition on the import of silver had been cancelled, and that the import duty of 4 annas an ounce on silver had been abolished. This latter step was also taken on the recommendation of the committee. The prohibition against using gold or silver coins otherwise than as currency was also removed.

There remains to be noted the Committee's suggestions in regard to the sales of Council Drafts and Reverse Councils.

They recommended that the sales should continue, as in the past, by open tender at competitive rates, a minimum rate being fixed from time to time on the basis of the sterling cost of shipping gold to India. As they state in their report, the rate at present varies, but when sterling is again the equivalent of gold it will remain uniform.

After the publication of the report it was announced officially that the Council's remittances would continue to be offered at the Secretary of State's discretion for weekly sale at the Bank of England by competitive tender, the rate for deferred telegraphic transfers and bills ranking for allotment with tenders  $\frac{1}{8}$ d. higher for immediate telegraphic transfers. No announcement, it was stated, would be made as to the minimum rate at which tenders would be accepted.

It was also stated officially that should occasion arise during periods of exchange weakness the Government would offer for sale weekly amounts of Reverse Councils, including immediate telegraphic transfers, and, in the language of the report, the rate must necessarily be based on the cost of shipping gold from India to the United Kingdom, since, so long as sterling is divorced from gold, it will not be possible to announce a fixed rate at which sales will uniformly be made. In the circumstances, then, until the gold basis of the British currency is restored, had it been possible to maintain the value of the rupee at the new ratio, it would have taken for these Reverse Councils approximately Rs. 10 to purchase the sterling equivalent of one sovereign less a percentage to cover the cost of remittance—India to London.

The stabilization of Indian exchange by linking the rupee to the gold sovereign did not, however, prove the success that was anticipated. The Government made heroic efforts, and sold Reverse Councils (sterling bills drawn from India on London) to a considerable amount in support of exchange. The demand for this form of remittance first became evident in January, 1920, and

the bills were first offered for sale in India on 2nd January. During the remainder of that month the rate at which they were sold was based on the exchange of 2s. 4d. that had been fixed for the sale of Council Bills. But, with effect from 5th February, 1920, and in accordance with the Currency Committee's recommendation that the rupee should have a fixed exchange value, expressed in terms of gold at the rate of one rupee for 11·30016 grains of fine gold, the rate was based on a ratio of Rs. 10 to one sovereign, allowance being made for the depreciation of sterling on the basis of the latest current rate for the dollar-sterling exchange. The reason was this: In effect the paper £1 notes were inconvertible; the export of gold from England was also prohibited. In order, therefore, to arrive at a correct basis for the sterling rate at which Reverse Councils were to be sold, it was necessary to work the calculation in a roundabout way by reference to a unit which was still convertible into gold; we refer to the American dollar. The American dollar since the war has remained at par with gold and is interchangeable with it, there being a free market for gold in America. In England since the war there have been restrictions on the movement of gold, but the price of the metal, in sterling, is quoted daily (except on Saturdays). To arrive at the daily quotation, the dollar rate of exchange, New York on London, or cross rate, as it is called, is used as an index number of the price of gold. The American gold eagle (10 dollars) contains 232·2 grains of fine gold, so one dollar equals 23·22 grains, and on this basis the American parity price of gold in London is calculated in the following way—

? shillings equal	= 1 oz. (480 grains fine) gold
If 23·22 grains fine	= \$1
„ x dollars	= 20 shillings

$$480 \times 20$$

$$23 \cdot 22 \times x$$

$x$  being the dollar exchange, New York on London.

Now the basis of the rupee being 11·30016 grains of fine gold, by a similar chain of reasoning it was possible to arrive at the approximate rate at which Reverse Councils should be sold, viz.—

$$\begin{array}{rcl}
 ? \text{ pence} & = & 1 \text{ rupee} \\
 \text{If } 1 \text{ rupee} & = & 11\cdot30016 \text{ grains fine gold} \\
 \text{,, } 23\cdot22 \text{ grains} & = & 1 \text{ gold dollar} \\
 \text{,, } x \text{ dollars} & = & 240 \text{ pence} \\
 \hline
 11\cdot30016 \times 240 & & \\
 \hline
 23\cdot22 \times x & = & 116\cdot79
 \end{array}$$

The constant being 116·79, to get the approximate rate for Reverse Councils at any time all that had to be done was to divide this constant by the dollar sterling exchange. For instance, given a rate of say \$4·50 for £1, then the rate for Reverse Councils would have been 2s. 1·953d. less, of course, the charges for the imaginary export of gold, India to London.

By working on this basis the rate for immediate telegraphic transfers at the sale on 5th February, 1920, was fixed at 2s.  $8\frac{1}{16}$ d. In the following week the rate was raised to 2s.  $10\frac{2}{3}\frac{7}{2}$ d., but by 1st April it had been reduced to 2s.  $4\frac{1}{16}$ d. The comparatively high rates offered by the Government stimulated remittances from India during the early part of 1920. The Reverse Councils were all along being offered at higher rates than those for bank remittances, and this led to tenders largely in excess of the amounts offered. Then by the end of June the balance of trade began to turn definitely against India with the inevitable result that market rates of exchange not merely departed from the parity with gold, but actually fell below the parity of 2s. Then the Government came to a strange decision: they determined to sell Reverse Councils at a fixed rate instead of varying rates, and at the sale on 24th June, 1920, and subsequent sales, the rate adopted for immediate telegraphic transfers was 1s.  $11\frac{1}{3}\frac{9}{2}$ d., this representing the rate which it was considered would ultimately hold when sterling returned to parity with

gold. This step was of little avail; applications for the Reverse Councils continued to be enormously in excess of the amounts offered, for the simple reason that the ever-increasing balance of trade against India led to the progressive reduction in the market rate for remittances. At the end of September, 1920, as the Controller of Currency stated in his report, sales of Reverse Councils from the beginning of that year totalled £55,382,000, and the note circulation between 1st February and 15th September had been reduced from Rs. 185 crores to Rs. 158 crores. Even this substantial withdrawal of currency proved ineffective to maintain exchange, mainly owing to the abnormal activity in imports of foreign goods and to the absence of any support from exports. The Indian Government, therefore, decided after the sale of 28th September, 1920, to withdraw for the time being their offer of sterling drafts on London. During the remainder of the year no further sales were made, and the exchange value of the rupee, deprived of this support, rapidly declined.

Two points in connection with the sales of Reverse Councils are worthy of notice. First, when selling remittances on a ratio of ten rupees to one sovereign on the basis of the New York-London rate of exchange, the Government was acting in accordance with the Currency Committee's recommendation; they were divorcing the rupee from the pound sterling paper and linking it with the gold sovereign. Secondly, when making sales at the fixed rate of 1s.  $11\frac{1}{3}\frac{9}{2}$ d., they were actually linking the rupee to the paper pound sterling.

There were no sales of Council Bills or of Reverse Councils during the Government's year 1921-22. Indian currency and exchange was going through a trying period. It must be admitted that the linking of the rupee with gold and not with the depreciated paper pound sterling had not been successfully accomplished. Despite the efforts of the Government exchange had not been stabilised, and the authorities evidently found that there

were drawbacks in a State-managed currency that had previously not been apparent. In a word, the system it was sought to perpetuate lacked the advantages of a full automatic currency system such as exists in England. Exchange, deprived of the support that had been given by the sales of Reverse Councils broke away badly, and the rupee fell rapidly from over 2s. to 1s. 3d. The cause of the trouble was to be found in the adverse trade position. Early in 1921 the balance of trade went badly against India, and with few buyers of her products the export market became crowded with goods. The decisive factor was the economic depression from which the majority of India's customers were suffering and their consequent inability to make their usual purchases. In this connection a quotation from an interesting pamphlet on the subject, written by an Indian Government official, is interesting. He says: "The difficulty is to know on what basis to calculate exchange in endeavours to fix forward business. The old ratio of Rs. 15 to the sovereign has been replaced by a new one of Rs. 10, but apart from the rewriting of Government accounts on a 10-rupee basis (which, as far as can be judged, is a 10-rupee per pound sterling basis and not a 10-rupee per sovereign basis), it is non-effective from the point of view of trade. The parities of gold and silver are sometimes above and sometimes below the market rate, the vagaries of which are impossible to anticipate and difficult to explain even in retrospection. It seems fairly clear, however, that from the date on which Government showed their inability to fix exchange on a two-shilling (gold) basis, exchange has been trying to find a lower limit at which the export of something or other would counterbalance the abnormal excess of imports over exports. With the demand for India's produce falling off owing to the inability of Europe to purchase it, India has several times been reduced to disgoring quantities of the precious metals she absorbed during war time. As far as silver is concerned, the effect



of India selling has been to lower the London price, and *ipso facto* to lower the bullion value of the rupee. The result has been that Indian exchange and the London price of silver have acted and re-acted on each other until no one can say when either has reached its lower limit. The position is much the same as during the two or three years immediately following the decision to fix the rupee at 1s. 4d. There was at that time no lower limit except that at which it was profitable to export rupees, and the upper limit was reached only when the balance of trade in favour of India had reached such proportions that sovereigns were imported and sold to Government at the fixed rate of Rs. 15 per sovereign. For months after the above decision the exchange value of the rupee fluctuated from 1s. to 1s. 3d. Even after it was stabilised owing to a steady excess of exports, resulting in a regular influx of gold, the lower limit was a matter of much uncertainty until Government gave positive evidence that they would sell Reverse Councils to meet the trade demand for remittance.”<sup>1</sup>

To return to the remittances, London on India, as we have stated, the selling of Council Bills and telegraphic transfers ceased on 5th January, 1920. Then, in the financial year 1921-22, there were no sales of Council Bills or of Reverse Councils. The total expenditure which the Secretary of State had to meet in London was about £46,000,000 during that year. Further, it was obvious, as the Finance Member said in his Budget speech, that even if it had been necessary to put the Secretary of State in funds by means of the sale of Council Bills in London, such remittances, if sold to any extent, would have acted as a very severe deterrent to any recovery in exchange which the trade conditions of the year might otherwise lead to. Fortunately, the need for such sales did not arise, and the authorities in London were able to procure funds from other sources, chiefly by borrowing

<sup>1</sup> *The Indian Exchange Problem*, F. V. Rushforth, pp. 31-32.

on the London market. The sales of Council remittances were not, in fact, resumed until 9th January, 1923, when the Secretary of State for India announced that a limited amount of bills and telegraphic transfers (deferred and, immediate) would be offered for sale by competitive tender. The resumption of the sale of Council Drafts, it was stated, had been decided upon with a view to strengthening the Secretary of State's resources against his requirements in 1923-24. The holding of further sales, and the amounts to be offered, it was further announced, would be dependent on conditions of exchange.

The amount offered on Tuesday, 9th January, 1923, was fifty lakhs of rupees, payable at Calcutta, Bombay, and Madras. The result of the tendering, after the lapse of over three years, was interesting. Only a small amount in bills was applied for at an exchange of 1s.  $4\frac{1}{3}\frac{1}{2}$ d. per rupee; but at this rate none was allotted. Seven lakhs of rupees (Rs. 7,00,000) in deferred telegraphic transfers were applied for at 1s.  $4\frac{1}{16}$ d. per rupee, and were allotted in full. For the immediate telegraphic transfers the applications were very large, the total amount for which tenders were received being Rs. 455,00,000, at rates varying from 1s.  $4\frac{3}{32}$ d. to 1s.  $3\frac{3}{32}$ d. No tenders, however, below 1s.  $4\frac{3}{32}$ d. were accepted. Tenders at 1s.  $4\frac{1}{16}$ d. received about 9 per cent., while those applying at 1s.  $4\frac{3}{32}$ d. received allotments in full. The total allotment of immediate telegraphic transfers was Rs. 43,00,000, which, with the Rs. 7,00,000 of deferred telegraphic transfers, made up the total of fifty lakhs offered by the Secretary of State.

A word or two as to the method of allotment may be useful. When Council Bills are allotted, the allottee fills up a form with particulars of the bills desired, and leaves this at the Bank of England before 12 o'clock on the day preceding that on which the bills are required; the bills are then delivered the next day on payment in cash not later than 2 o'clock.

When a telegraphic transfer has been allotted the necessary telegram authorizing payment in India on demand is sent on the day on which payment for the transfer is made at the Bank of England. Immediate transfers are payable in India on the day following the issue of the telegram; deferred transfers are payable 16 days after the issue of the telegram.

As a matter of interest it may be noted that the Government of India have announced that the total remittances to the Secretary of State for India from 1st April, 1923, to 31st January, 1924, were as follows—

Council Bills and telegraphic transfers . . .	£8,728,000
Sterling purchases in India . . . . .	11,525,000
Sterling taken over in London. . . . .	1,303,000
Transfer from Paper Currency Reserve in England to Home Treasury . . . . .	5,848,000
	<hr/>
	<u>£27,404,000</u>

The total includes £12,000,000 remitted on account of the Paper Currency Reserve.

Such in the main are the principal points in the Indian Currency Committee's Report of 1919, and we have given a fairly full summary of the results that have followed its publication, as the adoption by the Government of many of the recommendations marks a very interesting and important development in the history of Indian finance and currency.

## CHAPTER V

### THE TRADE OF INDIA

IN this chapter it is our purpose to treat of the trade of India, and here the author finds himself on the horns of a dilemma: on the one hand, he is asked to cater for the man who wants everything proved up to the hilt; and, on the other, for the person in a hurry who does not want to be bothered with figures. The dilemma is, how to steer a middle course and so satisfy all parties?

In any trade discussion we must have recourse to some statistics; but statistics in the past have been in bad odour, so much so, in fact, that we are told there are three kinds of lies: lies, d——d lies, and—statistics! But just as particular lies may be said to speak a general truth, so must trade statistics be held to reveal the general position of a country's commerce. If figures were not too carefully recorded in years gone by, that is not the fault of the present-day statistician, whose work it must be admitted is now very efficiently done; and, taken for all in all, the various Government returns are about as correct as we shall expect to see them on this side of the Millennium. However, there is no intention to burden the unwilling reader with a multitude of data which he may not be inclined to study, so the statistics which it has been thought advisable to include are given at the end of the chapter: being there, each person is at liberty either to peruse or to skip them, just as it suits him.

India is more than anything else an agricultural country: 65 per cent. of the people are dependent upon the soil for their livelihood, and fully nine-tenths of them live in villages. It follows, therefore, that the principal articles of export are in the form of raw material—wheat, cotton, jute, rice, tea, and oil-seeds. Manufactured commodities

do not loom largely in the export trade, but practically all the imports consist of manufactured articles.

The bulk of the exports being raw agricultural produce, it is evident that the economic condition of the country is dependent upon the character of the elements—or, perhaps we ought to say—of the seasons. It is a well-known fact that India possesses a most precarious rainfall, and consequently the approach of what is known as the monsoon is always regarded with anxiety not only by natives, but also by the persons in Europe whose trading connection lies with India. The monsoon, it might be as well to state, is the name given to the trade winds which blow in the Indian Ocean and the adjacent parts. From April to October there is a strong south-west wind when rain prevails; from October to April, a gentle, dry, north-east breeze. The change, or, as it is called in India, the breaking up of the monsoon, is attended by violent rainstorms. The character of the monsoon varies in different parts of India, and, while each period is viewed with apprehension, it is the amount of seasonal and total rainfall required which is of most importance, and any failure to obtain the proper amount quickly produces crop shortage, which very soon results in famine conditions.

The hot weather lasts from April to June, the rains from July to October, and the cold weather from November to March.

It is at once apparent that the trading power of India really depends on the success of her crops, and whenever these fail exports of her raw produce are necessarily much curtailed; there is immediately a diminution in the purchasing power of the people, and a falling off in the value of exports, which, after a brief interval, leads to a greatly decreased demand for imports.

At this stage the connection between trade and exchange may be usefully noted.

The busy season commences in September, and is accompanied by steady exchange conditions—as a rule.

Exchange is most firm during the period October to May, but the sales of Council remittances are probably at their best in the cold weather months—November to March. After that, fewer are sold; and exchange is weakest in the slack season, notably, in the months of June to September.

The bulk of India's trade is conducted with the United Kingdom, which is also a market for most of the produce shipped from India. During the financial year 1921–22,<sup>1</sup> we supplied India with 57 per cent. of her total imports, and received from her 20 per cent. of her total exports. Over the same period, Germany supplied 2·7 per cent. of the imports and received 6·7 per cent. of the exports from India. France also was a good customer during 1921–22, having taken 4 per cent. of India's exports. Great Britain's share in the *total* trade in 1921–22 was actually 39 per cent., British possessions accounted for 15 per cent., while the remaining 46 per cent. was shared with the principal foreign countries. It will be seen, therefore, that we have the lion's share of the trade; but it is worthy of note that Germany for years past has made a bold bid for the Indian markets, and prior to the war she was a keen competitor for any business offering. With competition from Germany eliminated, other nations have entered the field, and all are seeking to extend their trade with India; so it behoves British merchants to exert themselves to the utmost to keep for this country its predominant share of the total trade of the Indian Empire.

Let us now proceed to examine very briefly the particulars of the exports and imports as given in the many Government returns issued by India.

Indian wheat, which is harvested in March to May, represents about 10 per cent. of the world's supply, and as it comes on the European market at a convenient time

<sup>1</sup> The financial year ends 31st March, and is so fixed because it includes the whole of one year's crops, which are practically harvested and exported between 1st April and 31st March. The official year, then, as far as the harvests and trade of India are concerned, is more convenient than the calendar year.

of the year (July to September), the results of the harvest are closely watched from this side. Great Britain and France are the principal consumers of Indian wheat, and we have taken on an average a little over £7,000,000 worth annually for the five years ended 31st March, 1914. As a general rule, the financing of the wheat crop is carried out through the medium of the exchange banks, but in the year 1914-15 the Government took the somewhat unusual step of carrying through the operations itself. Exports in the earlier part of the year had been affected by crop conditions; and, later, owing to a serious rise in local prices, the Government found it expedient to place important restrictions on export. After the close of the year it went further, and prohibited the private export of wheat, and arrangements were subsequently made for the purchase and export of the available surplus on account of Government and under Government control. The experiment, however, has not been repeated, and the restrictions now being removed, the financing is once more in private hands.

There was a failure of the monsoon in 1920, which resulted in a shortage of the wheat crop, and not only was it necessary to place an embargo on exports, but imports both on Government and on private account had to be stimulated. Limited exports were allowed during the following year, but in 1921-22, out of a production of 9,817 tons of wheat only 81 tons were exported.

Jute probably ranks in equal importance with India's wheat exports, and money is required to finance the crop during the rainy season—July to October. The largest importer is the United Kingdom, which took, in the year 1913-14, 1,626,067 bales of a declared value of £7,826,358. The average consumption of the United Kingdom before the War was 1,700,000 bales; but with the development of the jute mill industry in India the consumption has declined, and in 1921-22 the United Kingdom took only

508,000 bales. The jute industry is of great importance to India, and the amount of manufactured articles from that product is increasing largely. Manufactured jute falls under two main classes—termed by the trade, sacking and hessians respectively. The total exports from India for the year 1914–15 amounted to 26 crores of rupees (about £17½ millions). In 1921–22 the exports were valued at Rs. 29,99,57,186 (£29,995,718).

Tea-growing is one of India's most stable industries, and was responsible, in 1913, for the employment of over 600,000 persons. From the time when the first sample of Assam tea was sent to England in 1838, the production has gone steadily forward and, during the last decade especially, the increase in exports has been most progressive, the estimated output rising from 221,000,000 to 305,000,000 lb. (weight). The total exports for the year 1913–14 were valued at £9,983,372, and in 1921–22, £18,220,000.<sup>1</sup> Here, too, the United Kingdom takes first rank as a consumer of the product, the amount which we imported in 1921 being valued at £14,872,000. The financing of the tea shipments is chiefly in the hands of the Indian and other exchange banks, and, to a lesser degree, the large merchant banking houses.

India also produces a large quantity of rice, her share of the world's production being no less than 46 per cent.; she is, moreover, the largest exporter of rice in the world. The rice is raised mostly in Lower Burma, and is much less susceptible to seasonal influences than most food-stuffs, since the failure of the rainfall is practically unknown in Burma. The export trade from Burma is, nevertheless, affected by conditions in other parts of India; deficiency in the monsoon at once creates a demand for the Burmese product at rates to which the range of prices in foreign markets for rice does not correspond. The effect is to divert the rice, which would otherwise have

<sup>1</sup> It should be noted that rupees in 1913–14 were converted into sterling at Rs. 15 to £1; the conversion rate now is Rs. 10 to £1.



been exported from Burma, to other parts of India, and the country, excluding Burma, then becomes to all intents and purposes an importing country. Trade is active over the last five months of the Indian financial year (Nov.-March), and the demand for financial accommodation is then very heavy indeed. The United Kingdom, although it takes a fair proportion of India's rice, is by no means its best customer for the product. Rice not in the husk is exported to every country of the globe, and a good deal is taken by Eastern nations, such as those of Ceylon, the Straits Settlements, and Japan. For the last two or three years, however, Great Britain's purchases have amounted to over £3,000,000 per annum.

Raw wool and raw cotton also bulk largely in Indian exports. The exports of raw wool in 1921-22 amounted to Rs. 2,54,46,000, of which the United Kingdom took the major part, viz., Rs. 2,49,31,000; in the same year raw cotton to the value of Rs. 53,96,83,000 was exported, the portion taken by the United Kingdom being worth Rs. 1,50,91,000. The cotton season begins in October, and the trade continues throughout the closing months of the year. Exports principally emanate from Bombay; Japan and the Continent are the chief purchasers.

India is a great producer of oil seeds, which are practically all exported to Europe, and the season for this product also commences about October. During the 1921-22 period, the United Kingdom and France took 24 and 30 per cent. respectively, and Belgium 14 per cent. Seeds, like wheat, are largely dependent upon the weather, and the trade is consequently subject to violent fluctuations from year to year. Financial accommodation for the movement of the seed crop is required at the close of the jute season (October), and some idea of the magnitude of the operations involved may be gathered from the fact that the total exports in 1921-22 were valued at £17,406,900.

Five per cent. of India's total exports is in the form of hides and skins, which, as they fetch high prices on the

world's market, are a valuable adjunct to the foreign trade of the country.

The remaining exports do not call for special mention.

Turning to the import trade, we find the United Kingdom well to the fore in its operations with India, her share in total imports 1921-22 being 56.6 per cent. Imports of piece goods head the list with the high total, for 1921-22, of £42,913,400. The United Kingdom's share in the total quantity of piece goods imported into India was 87.6 per cent. In connection with this particular trade a word of warning is necessary. Piece goods have been of recent years shipped to India in quantities far larger than can be readily absorbed, with the inevitable result that markets have become more or less congested. If, as is averred, the English mills are now capable of producing more than their customers can use, it should be remembered that even the most progressive market cannot expand suddenly at the whim of shippers, and care should be taken not to overload the markets beyond their power of absorption.

There is a fair business in woollen manufactures, but the probability is that the import trade will never attain very great dimensions on account of the climate and habits of the people, which militate against the extended use of woollens. Great Britain, however, retains the greater part of what trade there is.

Iron and steel form no inconsiderable part of India's imports, and the trade with England is well maintained and fairly constant.

When we come to metal manufactures we find an increasing trade in machinery and mill-work, largely for the textile industries, and the position which this class of imports occupies rather gives food for reflection. In a word, there seems no reason to doubt that India, as time goes on, will develop manufacturing centres, in which the jute, cotton, wool, and other raw produce raised in India will be turned into the finished product, and in proportion

to the increase in her capacity to manufacture for the native requirements must the demand for European articles diminish. That is perhaps looking far ahead, but it is a fact which must not be disregarded.

The imports of railway plant and rolling stock show a progressive expansion, both on Government and on private account, all of which testifies to the continued improvement in the economic condition of India, since it is only with the growth of railways that the isolation of distant villages comes to an end. Furthermore, increased transit facilities aid very efficiently the wider distribution of imported manufactures. Needless to say, practically the whole of the trade in railway and rolling stock materials is in the hands of Great Britain.

Apart from the United Kingdom, India does a fair foreign trade: she imports, for instance, sugar from Java, and mineral oil from America; while Japan is a ready buyer of her cotton, and China takes a large amount of the yarn exports; but limits of space preclude our going into the question of the trade with those countries.

In connection with trade, there remains to be considered the question of Customs import dues. Before the war these were fairly moderate, the general duty on goods imported by sea being only 5 per cent. *ad valorem*. There were, however, a large number of exceptions, and woven goods were specially favoured with a  $3\frac{1}{2}$  per cent. rate. But, mainly owing to conditions arising from the War, India had to face a series of budget deficits during the years 1918-22, and to meet the deficiency duties had to be advanced considerably. The general duty has now been raised to 15 per cent., and it includes the majority of articles under such headings as apparel, chemicals, hardware, provisions, dyes, glassware, soaps, paints, paper, etc. A heavy duty is also imposed on such articles as motor-cars and motor cycles, confectionery, clocks, watches, jewellery, plate, and silk piece goods.

In this connection the Senior Trade Commissioner in

India stated in his Report for September, 1922: "The effect on the British motor-car trade is likely to be most serious, as not only will all imports be reduced, but the effect of the increased duty will be felt most severely in the case of the higher priced British car." Early in 1922-23 there was a considerable falling off in this trade, with but a slight increase in Customs revenue. At the same time there was a serious decline in the British shipments of cars, and a corresponding increase in the import of the cheaper cars from America.

The increased duty has also seriously threatened British exports to India of confectionery, and it is hoped that the Government will realize the folly of damaging these valuable trades for the sake of a negligible increase in revenue.

The principal duties now in force are—

	<i>ad valorem.</i>
Cotton yarns . . . . .	5%
Cotton piece goods . . . . .	11%
Iron and steel . . . . .	10%
Power machinery . . . . .	2½%
Machines to be worked by manual or animal labour.	15%
Railway plant and rolling stock . . . . .	10%
Sugar . . . . .	25%
Mineral oil . . . . .	7½%
Metal ores and scrap iron or steel . . . . .	10%

**SILVER-MANUFACTURED ARTICLES.**—Prior to 1916 Indian silversmiths laboured under some disability; they had to pay the duty of 4 annas per ounce for the silver required for the manufacture of their goods, while silverware and silver thread imported into India only paid duty at the general rate (5 per cent. *ad valorem*). In 1916, however, it was resolved that where an importer could give the Collector of Customs proof as to the silver contents of an article made, or partly made of silver, the duty on such silver contents would be chargeable at the same rate as that on silver, namely, 4 annas per ounce, the residual value of the article being taxed at 7½ per cent. Under the revised tariff introduced from 1st March, 1916, and amended on 1st March, 1917, silver plate, silver thread and wire

and silver manufactures of all sorts were chargeable with an *ad valorem* duty of 10 per cent. Silver plate, silver thread and wire, and silver manufactures of all sorts are now chargeable with a duty of 30 per cent. *ad valorem*.

Gold plate, gold thread, and gold manufactures of all sorts are also subject to the 30 per cent. *ad valorem* duty.

Imports of gold and silver bullion and coin are admitted free of duty.

The few export duties which exist were mainly imposed as the result of the war; they are—

RAW JUTE . . . . .	(1) Cuttings—Bale of 400 lbs. Rs. 1, 4 annas.
	(2) Other descriptions—Bale of 400 lbs. Rs. 4, 8 annas.
JUTE—Manufactures . . . . .	When not in actual use as coverings, receptacles or bindings for other goods—
	(1) Sacking (cloth, bags, twist, yarn, rope and twine) Ton of 2,240 lbs. Rs. 20.
	(2) Hessians, and all other descriptions of jute manufactures not otherwise specified Ton of 2,240 lbs. Rs. 32.
RAW HIDES AND SKINS	15% <i>ad valorem</i> . Provided that, subject to such conditions as the Governor-General in Council may prescribe, a rebate of two-thirds of the duty is granted to the exporter of hides or skins exported to British Dominions, and to certain other territories under His Majesty's suzerainty.
RICE . . . . .	Rice, husked or unhusked, including rice flour, but excluding rice bran and rice dust, which are free of duty—per Indian maund of 82½ lbs. average, 3 annas.
TEA . . . . .	per 100 lbs., Rs. 1, 8 annas.

For the guidance of traders, merchants, and shippers, the Department of Statistics in India<sup>1</sup> has set forth the following details as the basis for all Customs declarations, and the facts should be carefully noted by those who trade with India and those who contemplate opening up business relations with India.

<sup>1</sup> *Review of the Trade of India, 1913-14, p. 1.*

Under the Indian Sea Customs Act of 1878 the real value which importers or exporters must declare is defined to be (a) the wholesale cash price, less trade discount, for which goods of the like kind and quality are sold, or are capable of being sold, at the time and place of importation or exportation, as the case may be, without any abatement or deduction whatever except (in the case of goods imported) of the amount of the duties payable on the importation thereof; or (b) where such price is not ascertainable, the cost at which goods of the like kind and quality could be delivered at such place, without any abatement or deduction except as aforesaid. In short, in the case of articles in which transactions are sufficiently numerous for there to be a recognised wholesale market rate for the article, that price must be given, less the trade discount, and, in the case of imported articles, the duty. The value to be shown for imported articles is not necessarily the cost at which the importer has been able to land the goods in India. Imported piece goods, for example, are ordinarily sold by the importer to large wholesale dealers, who dispose of them in turn in wholesale transactions; and it is the price at which the latter transactions take place which determines the value which should be declared. Where no such wholesale market price is ascertainable, the value will, in ordinary cases, represent the value in the *bonâ-fide* invoice *plus* insurance, freight, and landing charges.

There remain to be given the statistics of the trade of India, but before studying these it will be well to see what method is adopted for the conversion of rupees into English currency.

We have seen that the pound sterling is equivalent to Rs. 15, and, as most people know, the rupee itself is divided into 16 annas, and the anna into 12 pies. At a rate of exchange of Rs. 15 to £1, the anna is worth exactly one penny.

Now, in most Indian accounts, especially in the

Government Returns, it will be found that the large numbers are expressed in lakhs and crores of rupees; they are not punctuated into hundreds of thousands and millions as in the British notation. Curiously enough, most of the bankers and merchants write the word lakh "lac."

One lakh is Rs. 100,000, and is written Rs. 1,00,000 (@ Rs. 15 to £1 = £6,666 13s. 4d.).

One crore is equal to 100 lakhs (or 10,000,000 rupees), and is written—Rs. 1,00,00,000 (= £666,666 13s. 4d.).

The best way to convert rupees into sterling at Rs. 15 to £1 is to multiply the number of rupees by 2 and put a decimal point to the left of the unit figure, then divide by 3, the quotient being the sterling equivalent in pounds and decimals. To reduce the remaining decimals to shillings and pence, the first two decimal figures should be divided by 5 to furnish the number of shillings, and the remainder to two places divided by 4 will give the number of pence. The reader can prove the correctness of this method of conversion by checking the equivalent of a lac and crore of rupees respectively.<sup>1</sup> Under the new order of things adopted as the outcome of the recommendations of the Indian Currency Committee of 1919, of course, it is simple to find the sterling equivalent of rupees, for so long as sterling remains divorced from the rupee the number that go to £1 is ten. The relation now is, as stated on a previous page, ten rupees to one sovereign, or one rupee to 11·30016 grains of fine gold.

Chief articles of British produce imported into India in the years 1909–10 to 1913–14 and 1921–22 were—

YEAR.	COTTON.		WOOLLEN MANUFACTURES.
	<i>Piece Goods, etc.</i>	<i>Twist and Yarns.</i>	
1909–10	£22,172,731	£2,025,845	£901,965
1910–11	25,529,437	1,914,528	1,273,711
1911–12	28,085,336	2,243,589	1,336,974
1912–13	34,453,305	2,610,246	1,179,880
1913–14	37,455,944	2,378,346	1,482,426
1921–22	37,131,000	8,772,100	874,700

<sup>1</sup> Cf. Indian Govt. *Review of Trade of India* (Calcutta), p. II.

YEAR.	IRON OR STEEL.	COPPER.
1909-10	£3,750,342	£999,667
1910-11	3,897,964	1,391,585
1911-12	4,091,331	1,022,889
1912-13	4,654,572	813,402
1913-14	6,810,248	1,354,038
1921-22	10,055,400	850,300

## METAL MANUFACTURES.

YEAR.	<i>Machinery and Millwork.</i>	<i>Railway Plant and Rolling Stock for Companies.</i>	<i>Hardware.</i>
1909-10	£3,259,153	£3,251,473	£1,079,339
1910-11	2,894,709	2,528,984	1,156,876
1911-12	2,584,382	2,584,423	1,240,529
1912-13	3,212,709	3,898,513	1,305,394
1913-14	4,638,519	6,219,223	1,505,016
1921-22	28,451,000	18,397,800	3,677,000

The principal exports from India to the United Kingdom in the years 1909-10 to 1913-14 and 1921-22 were as shown below.

YEAR.	JUTE. ( <i>Excluding Gunny bags.</i> )	RAW WOOL.	RAW COTTON.	INDIAN TEA.
1909-10	£4,289,508	£1,850,846	£1,244,460	£5,885,463
1910-11	3,885,292	1,867,323	1,621,758	5,915,923
1911-12	6,530,513	1,659,622	1,205,891	6,353,755
1912-13	7,352,171	1,704,785	717,076	6,325,049
1913-14	7,826,358	1,621,111	957,351	7,232,049
1921-22	2,873,200	2,493,100	622,400	16,116,400

YEAR.	RICE.	WHEAT.	SEEDS.
1909-10	£842,946	£7,130,489	£3,047,630
1910-11	1,022,480	7,113,542	4,365,640
1911-12	932,871	6,741,190	4,242,907
1912-13	1,305,463	8,380,422	3,029,850
1913-14	1,129,677	5,694,757	3,763,774
1921-22	1,972,000	546,900	4,243,600

In the financial year 1921-22 the British Empire had 54 per cent. of the total trade (67 per cent. of the imports and 41 per cent. of the exports).

Imports from the United Kingdom were valued at Rs. 151 crores as against Rs. 91 crores, the pre-war average.



Nearly 31 per cent. of the total imports in 1921-22 consisted of cotton manufactures, including twist and yarn. The other important groups, viz., metals and manufactures, machinery, railway plant and rolling stock, accounted for 41 per cent. of the total imports.

The value of the exports to the United Kingdom during the period 1921-22 declined from Rs. 56 crores, the pre-war average, to Rs. 49 crores. The principal articles exported to the United Kingdom were tea, raw and manufactured jute, seeds, food grains, raw and tanned hides and skins, and raw wool. These articles represented about 69 per cent. of the total exports to the United Kingdom.

TREASURE.—It may be of interest to record the imports and exports of gold and silver during the financial year 1921-22. They were as follows—

GOLD—		<i>Imports.</i>	<i>Exports.</i>
On Private Account	. .	£13,820,400	£16,612,800
„ Govt. „	. .	—	72,100
SILVER—			
On Private Account	. .	£17,329,300	£2,380,400
„ Govt. „	. .	149,300	2,000

## CHAPTER VI

### BANKING AND EXCHANGE WITH INDIA : FURTHER SIDELIGHTS INTO THE FINANCING OF TRADE

EXCHANGE banks make enormous profits out of their operations with the Indian Empire, say the merchants; the bankers reply that the boot is on the other foot, and that it is the traders who are making all the money. But the truth is: each of the parties makes its mite out of the business—a mite which is much bigger than the widow's proverbial coin, too.

There are really four classes of bank doing business in and with India: the exchange banks, the Imperial Bank of India, the Indian joint stock banks, and a miscellaneous group of native bankers and brokers. The business of the last three classes is mainly concerned with the interior trade—finance and banking of India—and their operations are confined mainly to native banking. Then, there are a few British firms of very old standing—half bankers, half merchants, or, as some put it, a cross between the two, and these, as well as the Indian joint stock banks, are not confined to India for their exchange dealings. The native bankers, too, are not averse from entering into exchange operations outside India when it suits their book, but the extent of their business in this direction cannot be very well gauged.

The Imperial Bank of India is the outcome of an important development in Indian banking; it was formed as the result of an amalgamation of the three Presidency banks, the Bank of Bengal, the Bank of Bombay, and the Bank of Madras. These banks, under an Act passed by the Indian Legislative Council in 1920 were amalgamated on 27th January, 1921, from which date business has been conducted under the title of the Imperial Bank of India. Under their former régime the old Presidency

banks' operations were very restricted; they were regarded as semi-official institutions and were essentially "bankers' banks." Under the Presidency Banks Act of 1876 they were precluded from doing foreign exchange business, and from borrowing or taking deposits payable outside India. They were not permitted to make loans for longer periods than six months, or to advance upon mortgage, or on immovable property, or upon promissory notes bearing less than two independent names, or upon goods, unless the goods or the titles to them were deposited with the banks as security.

Under the constitution of the new Imperial Bank of India these disabilities are to a large extent removed; the Bank is empowered to do most of the business which the former Presidency banks were prohibited from doing. The Bank acts for the Government, and is permitted to have an office in London, and to re-discount bills for the exchange banks and other banks. It is not a competitor with the other exchange banks for purely exchange business.

As a nation India is notoriously short of banks, and to remedy this defect the Imperial Bank of India has agreed with the Government to establish and to maintain within five years not fewer than 100 new branches, a minimum of one-fourth of which will be opened at such places as the Government may consider desirable.

The exchange banks are principally branches of the largest Colonial and foreign banks, and they carry on the finance of the Indian export trade as an offshoot to their operations in the Far East and elsewhere; but, although they have a virtual monopoly of the business, the banks at times compete very keenly with one another for whatever is offering.

Exchange banking always calls for large funds, and none of the banks has fixed capital large enough to enable it to finance even the trade of India, which, as we have seen, runs into very large figures; recourse is had, therefore, to

borrowed capital. All the banks accept deposits, on current account or fixed, for which they pay varying rates of interest at home; but, even with these additional funds, their means are insufficient, consequently good rates of interest are offered for Indian deposits, which go to swell the total employed in trade finance.

We have seen how the banks operate on the bullion market, and have also studied various other aspects of their Indian finance; let us now proceed to examine the manner in which they assist the merchant or trader.

The Marwari, or native bankers, are principally concerned with the financing of the inland trade of India; they, so to speak, take their quota of profit before the exchange banks come on the scene. Branches of the European exchange banks are found mainly at the ports; the Marwari bankers operate in the interior, so it is they who finance the crops from the interior to the ports where the European banks then take over the export finance. The Marwaris are well known to the exchange banks, who make them advances, or fix exchange contracts with them from time to time. In brief, it is the Marwari's business to raise funds from the exchange banks on security, and to utilise those funds in the finance of imports and exports to and from the interior. In fine, the Marwari is the middleman in Indian trade finance.

Generally speaking, there are two sides to the business: the financing of the exports from this country to India, and the financing of the Indian imports into Great Britain.

We will take our own exports first, that is, the Indian imports.

The exporter obtains payment for his produce in one of several ways. He may draw a bill on the Indian importer and send it direct to India for collection, or he may, if he is a person of good standing and repute, sell the bill to an exchange bank in London; but, in the latter case, especially where there is a series of transactions to be financed, it is preferable to work under one or other of the various

forms of credit issued by the banks. Probably the most popular form of credit is that known as a Documentary Credit, which the bankers say is not a credit at all, but merely an authorisation by an importer to a banker to make certain advances to the exporter, on the joint responsibility of importer and exporter, on presentation to the bank of bills of exchange and complete shipping documents. Nevertheless, it is the banker who usually "advises" this credit to the shipper.

Limits of space preclude our going into the relative merits of the many forms of credit in existence: these are fully explained in the author's works—*Foreign Exchange and Foreign Bills* and *Bankers' Credits*; but it might be well to point out here that Indian and Eastern business is sometimes financed by the exchange bankers themselves giving their acceptance in London to bills drawn on them by the exporter, and for the sake of clearness we will presently refer to the difference between the two forms of finance.

When a bill is sent through a bank for collection, it may be drawn practically how the exporter likes; the banker does not part with his money until the bill has been duly honoured and paid, consequently he suffers no pecuniary loss, whatever be the ultimate fate of the bill. Instructions may be given for the bank to collect all charges, but the drawer should remember that he is called upon to pay the banker's commission for collection if the bill is not honoured. Bills sent for collection to India are subject to a commission of  $\frac{1}{4}$  per cent., and there is a charge of 2s. for postage made on all bills under £100, though the tendency nowadays is to drop the postage charge.

Of course, bills, whether drawn under a credit or not, may be "clean," that is, unaccompanied by documents in any shape or form; but, as a rule, unless the shippers are a very well-known firm, it is preferable for documents to be attached to the bill as evidence that the bill relates to the goods against which it is drawn.

It remains to add that bills drawn against shipments

sent by "Parcel Post" are really clean bills, whether accompanied by receipt of posting or not.\* It follows, therefore, that credits which authorise shipments by Parcel Post are clean credits, pure and simple.

These Indian import bills, whether under documentary credits or otherwise, are usually drawn on India at three months' sight; there is also a fair proportion of four months' paper drawn, but not many six months' bills are taken; and whenever the bankers buy or advance against such bills it is customary for the drawers to include in them an interest clause, which has the effect of making the bill bear interest at the agreed rate from its date until the approximate date the proceeds reach London. Interest bills are in sterling, but they are payable at the place of acceptance in India in rupees; and the rate of exchange for conversion into this currency, as settled with the exchange bank there, may be either the rate for telegraphic transfers or that for demand bills on London. Some bills are drawn with the clause "payable at the A B Bank's drawing rate for demand bills on London," while others state—"payable at the A B Bank's rate for demand bills or telegraphic transfers on London," and sometimes the remittance is made at the one rate and sometimes at the other: it is just a matter for settlement between the bank in India and the drawee, the latter generally endeavouring to avail himself of the best rate obtainable. If no rate has been arranged with the bank, the rate charged will be that fixed by the exchange banks in India from day to day.

Interest is usually collected from the Indian acceptor for the estimated period the bank in London is out of its money, and, if the bill is paid before maturity, interest is adjusted accordingly. It occasionally happens that the drawer himself arranges to pay the interest, in which case the London branch of the bank will claim on him in due course on hearing from its Indian agent the actual period for which the advance was carried. It is difficult to say why some Indian acceptors willingly acquiesce in the

interest charged in interest bills, while others refuse to pay it. The reason, according to some bankers, is to be found in the rules of the different castes; but of one thing we may be certain: the drawer on this side is not the loser, and where he pays the interest himself, he doubtless recoups himself in the price he charges for the goods, so it comes to the same thing in the end.

In London, when bills are paid before maturity, it is the custom to allow a rebate of one-half per cent. per annum above the London joint stock banks' advertised rate of interest for short deposits; in India, the rule is to allow the current rate of rebate as fixed by the exchange banks themselves.

Shipping documents may be surrendered either on acceptance or on payment, according to the instructions given by the drawers of the bills; and in cases where the relative documents of title to the goods are not delivered until the bill is paid, the banks land and store the goods, and take all steps necessary for the protection of the drawer's interest until such time as the acceptor is ready to take up the bill. In some cases the acceptor is permitted to store the goods in his own "go-down" (an Eastern name for a warehouse), under the close supervision of the bank's officials.

The possibility of getting shipments to India financed by means of London bankers' acceptances depends on the standing of a firm, as, obviously, bankers will not lend their names to bills of any but first-class firms; and the decision as to whether the banker shall enable the shipper to obtain payment for his produce by advancing funds against interest bills drawn on the Indian importer, or by accepting the bills the shipper draws on the bank, naturally rests with the banker.

In the ordinary course, the latter class of finance is cheaper only when money is easy and plentiful in London; with a high discount rate, it is no advantage to a merchant to obtain the banker's acceptance to a bill and then to

sell it under discount on the market, as the following examples will show—

Taking an interest bill drawn on Calcutta for £500 at three months' sight, the approximate cost will be—

120 days' interest at, say, 6% (being the estimated period from date of the bill until arrival of the proceeds in London)	£	s.	d.
Stamp Duty	9	17	3
	5	-	-
	<hr/>		
	£10	2	3

If the Indian stamp duty also has to be borne by the drawer, the cost will be increased by Rs. 6.12 (say, 9s.) if the bill is drawn in triplicate.

The charges on the bill drawn under an acceptance credit with the exchange bank for the same period would be—

1½% accepting commission, 4 months on £500	£	s.	d.
Discount on £500 for 4 months, say 5%	2	10	-
English Stamp Duty	8	6	8
	5	-	-
	<hr/>		
	£11	1	8

With a low discount rate, the position, of course, would be reversed.

The bills against exports from India to this country are principally drawn at three months' sight, though longer usance paper is sometimes negotiated. Both documentary and clean bills are drawn, and Indian exporters (like their European *confrères*) constantly work under credits arranged from this side. The credits are not always opened by the exchange banks themselves; frequently it is London banks and finance houses who open the credits and advise them out to India through the media of the exchange banks; bills under the latter credits are drawn upon and accepted by the banks which have opened them. The documentary credits opened by the exchange banks in India are those sent out by the banks' London offices at the request of the importer here.

The increasing volume of our exports of textiles to India (in 1918-19 textiles accounted for 55 per cent. of our total



export trade to that country) warrants our giving a brief description of the methods adopted to finance this trade and to distribute the goods on arrival in India. The British textile business with India is undoubtedly the best organised of all trades. One of the oldest methods for dealing with the business is that adopted by some of the larger British firms established in India. For years they have maintained their own offices and warehouses in Manchester, and they act in the dual capacity of shippers from the United Kingdom and distributors in India at all the important piece-goods centres.

There are signs that some of the richer Indian dealers intend to develop the system on similar lines, and more than one of them has recently set up his own office and staff in Manchester with a view to displacing the middleman.

The usual method of working is that described by the Indian Trade Commissioner in a recent Report.<sup>1</sup> The European or Indian importer at a leading port obtains his supplies from various Manchester shippers. He goes to one for dhooties, to another for the familiar grey shirtings, jacconets, etc., to another for fine whites, and to still another one for prints and dyed materials. The business is conducted by cabled indents at sterling prices, c.i.f., either for the operator's own account, or, as is frequently the case, for account of his dealers. When the shipment is ready it is financed either under the London acceptance system we have previously described, or by means of bills drawn at 30, 60, or 90 days' sight, documents against payment or documents against acceptance, as the case may be, these bills being negotiated by one or other of the Eastern exchange banks in London. The Indian importer sells the goods at a fixed rupee price go-down (the Eastern name for a warehouse) on 45 or 60 days' delivery, or whatever is the particular practice of the port to which he ships

<sup>1</sup> *Conditions and Prospects of British Trade in India*, by T. M. Ainscough, O.B.E.

the goods. His "banian" (or guarantee broker) is responsible for seeing that the goods are taken up at due date, and when through any cause, such as overstocked markets, trade stagnation, etc., the dealer fails to deliver, the importer not infrequently debits the "banian" with the cost, hands over the documents of title to him, and his responsibility then ceases.

Some of the Manchester shippers favour the development of direct trade with the Indian bazaar dealers. Their practice is to send out a representative to India during the cool season (October to March), fully equipped with samples, terms for shipping, and prices. Orders are placed in the bazaar and connections are made with dealers whose financial standing is considered satisfactory by the banks. The goods are subsequently shipped direct, and the bills are negotiated through the exchange banks who for their part maintain the drawer's lien over the goods. The bills are usually drawn "documents on payment," but where the financial standing of the drawee warrants it, a departure is sometimes made and the documents delivered against acceptance of the bills. In other cases the exchange bank clears the goods through the Customs, attends to the forwarding by rail to inland centres, takes delivery from the railway, stores the goods in its own go-down, from which it makes deliveries against payment, and in cases of dispute or claim, looks after the interests of the shipper.

Exchange contracts in India, as in London, are usually negotiated through the intermediary of exchange brokers, though not infrequently dealing is done direct with the banks. It is, however, the broker's business to act as the connecting link between buyers and sellers, and daily visits are made to the banks and to the merchants in connection with this exchange business. Generally speaking, the contracts are based on the undertaking of the exporters who expect to have bills presently available, to sell so many pounds sterling in exchange for rupees at an agreed rate, the bills to be delivered on a specified date, or within a given period, say from one to two

months. The particular form exchange is to take depends upon the terms of the contract, which may provide for telegraphic transfer payments, demand bills, or 3 months sight bills, or a combination of all three, a fixed rate of exchange being laid down for each option. "If for example, a merchant contracts to sell bills to a bank it is customary to allow him the option of settling 6 months' sight, 4 months' sight, 3 months' sight, 30 days' sight, or sight bills."<sup>1</sup> The differences between the rates for the various options are settled from time to time by the banks.

A good deal of exchange business in India is done in the form of telegraphic transfers. Importers, for example, may have to remit funds to pay for imports; other parties will require to remit money from time to time from India to London, and all will seek to take advantage of favourable rates of exchange by making contracts before the actual date at which they want to operate, and in selling these telegraphic transfers the banks will generally be willing to grant the buyer the option of taking "on demand" bills at small differences in exchange.

There are the usual differences between spot and forward exchange. The banks, for example, may be willing to make contracts for spot deliveries, but at the same time may not wish to enter into forward transactions. It all depends upon the state of their exchange account and their cash position at the time of dealing. As a rule, merchants and others in the Eastern exchange centres leave nothing to chance, and they will always try to make contracts, whether for buying or selling, at the most advantageous rates. In practice a merchant knows that he will have to make certain payments, say, within the next month or so. The ready or spot rate may or may not be favourable at the time; but suppose the market is weak and that he can only buy spot exchange at a comparatively low rate, that is to say, sellers, because the

<sup>1</sup> Cf. *The Indian Exchange Problem*, F. V. Rushforth, Calcutta,

market is weak, will offer him less sterling for his rupees, say 1s. 4  $\frac{1}{16}$ d. Through the medium of the brokers he may be able to find that one of the banks will offer him delivery one month forward at, say, 1s. 4  $\frac{1}{8}$ d. or 1s. 4  $\frac{3}{16}$ d. If he is of opinion that exchange may move against him he will settle the contract somewhere between the two rates. The rates at which the banks will buy or sell are governed to a large extent at the rates at which they can cover their operations, and in this connection reference may be made to the term "operating against doubles." This means that the banks are taking no risks, and for the time being they will buy bills only against cover, or, on the other hand, will sell telegraphic and other remittances only against deliveries of bills. When the exchange market is in this position it is nearly always because, in a banker's view, there is not sufficient cover available or in sight to provide for the risks involved, and at such times the exchange banks tend to work in unison; they will not sell remittances to importers unless they can at the same time buy exporters' bills at about the same usance, nor will they purchase export bills unless they can see their way clear to make a fairly quick sale of exchange against them in order to provide the necessary funds. The whole position is governed by the steadiness or otherwise of exchange. If exchange is fairly stable the banks will take their chance of being able to cover at profitable rates; but where rates are fluctuating unduly their attitude will be one of considerable caution.

In some circumstances the banks may have enough faith in the future of the exchange market to undertake what they call "budla" operations. That is to say, they will sell ready and buy forward, the rate for the latter transaction necessarily being in their favour. What they will seek to avoid all along is to get their exchange account into that position when it exhibits a heavy overbought or over-sold balance, since that is a state of affairs which will mean that gold or silver may have to be shipped

the one way or the other in order to liquidate the adverse balance.

Such are a few of the ramifications of the exchange banks in the Indian import trade.

Unfortunately, of recent years the financing of the import trade of India has not been free from difficulty. The main trouble may be said to have arisen in connection with over-trading during the boom year 1920. Markets became glutted with goods, and with prices falling, and exchange against them, Indian native importers in such centres as Bombay, Delhi, and Amritsar repudiated their bargains and contracts wholesale. The dishonour of bills drawn upon them was a common occurrence, and, as the Indian Trade Commissioner pointed out in his Report for 1922, almost every shipper who traded direct with Indian firms suffered loss through clients refusing to meet their liabilities. Redress from the Courts in India was very tardy and difficult to obtain. The reason is that the commercial courts in India are so congested, that delays of months, or even years, occur from the time a suit is filed to the date on which judgment is given, and the delays are greater still where a case goes to a High Court. In this connection, the authority already quoted draws attention to the rate of exchange on past due bills. He says that delay in clearing up the large number of past due bills in the hands of the banks has been occasioned by recent High Court judgments in India to the effect that past due bills are payable at the rate of exchange ruling on the date of the maturity of the bill and not at the rate ruling on the date of judgment or payment. The last judgment to this effect was given in the Bombay High Court in March, 1922. On 17th July, 1922, in the Calcutta High Court, Mr. Justice Greaves, after calling an accountant from one of the exchange banks to prove that, according to the custom prevailing among exchange banks, exchange is calculated on the date of payment, gave a decree for the amount of a claim based on the

rate of exchange prevailing at the time of the institution of the suit, and reversed the judgment given in the lower court. It should be noted, however, that this case was decided on the interpretation of a special clause in the contract, and the ruling cannot therefore be regarded as of general application.

The general opinion of merchants and bankers is that the more equitable rate is the one ruling at the date of the actual payment of the bill. It is reported that the Associated Chambers of Commerce of India and Ceylon are considering the desirability of moving the Government of India to have it clearly laid down, by statute, that bills drawn in foreign currencies shall be payable at the rate of exchange ruling on the date of actual payment.

The Hong-Kong Bills of Exchange Ordinance, 1921, affords a clear precedent for any future legislation. This Ordinance is in one clause only; it reads—

“Where a bill payable is drawn out of but payable in this Colony, the amount of the bill, if paid in this Colony and in the currency of this Colony, shall, in the absence of any expressed stipulation, be calculated according to the rate of exchange for sight drafts in this Colony on the day on which the bill is actually paid.”

It is to be hoped, says the Trade Commissioner, that (whether as a result of special legislation or of a ruling of the Court matters not) the present state of affairs will not be allowed to continue, otherwise a direct incentive is offered to unscrupulous indentors to decline to meet their bills at due date in the hope of exchange rising, and then wait until such time as they may consider to be most suitable for themselves and possibly cause a most serious loss in exchange to the shipper. The only equitable rule is that an exporter who sells and draws in sterling should receive in payment the same amount of sterling irrespective of exchange.<sup>1</sup>

<sup>1</sup> Cf. *Report on Conditions, etc., of British Trade in India*, by T. M. Ainscough.

We now come to the bills purchased by the bank in India which are sent home by the first mail; on their arrival they are presented for acceptance and, when complete, are endorsed by the exchange bank in London, and usually discounted on the open market. At times it suits the banks to hold the bills themselves until maturity—it depends on their financial position at the time—but, generally speaking, the bills are discounted as the need arises for the utilisation of the proceeds. If the banks are well supplied with funds and there is no immediate prospect of the money being profitably employed, the bills will be held in portfolio until they run off; but if trade is brisk, or money is tight, bills will be discounted, even at some sacrifice in the rate.

Theoretically, the banks in London are supposed to be dependent upon the encashment of bills for funds with which to pay the people who have sent collections to India through their hands; but, needless to say, they are never wholly reliant upon their re-discounts for meeting liabilities. Still, in connection with exchange banking, it should be noted that the proceeds of maturing or re-discounted bills form a very important item in the liquid funds at the disposal of the banks for financing the trade to and from India.

So much for the commercial side. We must now turn to the legal aspect of the question. Bills of exchange drawn from India on places in Great Britain, as soon as they enter this country, come under our own Bills of Exchange and Stamp Acts, and there is no necessity for our entering into that part of the law in this work; but as it is desirable for bankers and merchants—in fact, all students of exchange—to understand the conditions in India, we give a summary of the principal parts of the law governing these credit instruments there.

The Acts from which the details were taken are: The Indian Negotiable Instruments Act, 1881 (as modified up to the 1st September, 1909), and the Negotiable Instruments (Amendment) Act (No. V of 1914); the Indian

Stamp Act, 1899 (as modified up to 1st August, 1921); and the Indian Stamp (Amendment) Act, 1912; Bengal Stamp (Amendment) Act, 1922, and various Stamp (Amendment) Acts of the various Provinces, 1922 and 1923.

To be a valid instrument, a bill of exchange in India must be "an unconditional order," and in many respects the law has been assimilated to the English Bills of Exchange Act; but there are certain conditions in the Indian Act which differ somewhat from our own procedure.

Section 5 of the Indian Negotiable Instruments Act, in defining a bill of exchange, mentions that the order must be "to pay a certain sum of money"; and, in the absence of any other proviso, such a requirement might conceivably have been a little awkward for exchange purposes. This, however, was foreseen; and the section goes on to state that the sum payable may be "certain," although it includes future interest or is payable at an indicated rate of exchange, or is according to the course of exchange; and, what is important in a country where partial payments are occasionally accepted, an instrument comes within the scope of Sections 4 and 5, notwithstanding the fact that it provides that, on default of payment of an instalment, the balance unpaid shall become due.

Negotiability is one of the essential features of a bill of exchange; and the Indian Act of 1881, while laying down that a "negotiable instrument" included a promissory note, bill of exchange, or cheque expressed to be payable to a specified person or his order, or to the order of a specified person, or to the bearer, or to a specified person or to bearer, made no reference—as does the English Act—to a bill being made payable to two or more payees jointly, or to one of two payees. This was a curious omission in the Indian Act, but it seems to have caused no difficulty to Indian traders and bankers, as it soon became the custom to endorse negotiable instruments in such a way as to make them payable to two or more or some of several payees; and, in 1914, the Indian



Government deemed it necessary to validate the practice by passing a special enactment, known as the Negotiable Instruments (Amendment) Act (No. V of 1914), which now constitutes Sub-section 2 of Section 13 of the Indian Negotiable Instruments Act, and reads—

“ A negotiable instrument may be made payable to two or more payees jointly, or it may be made payable in the alternative to one of two, or one or some of several payees.”

In a promissory note or bill of exchange, the expressions “ at sight ” and “ on presentment,” in India, are taken to mean “ on demand ”: but the expression “ after sight ” means, in a promissory note, after presentment for sight; and, in a bill of exchange, after acceptance, or noting for non-acceptance, or protest for non-acceptance. (Sec. 21.)

Where interest at a specified rate is expressly made payable on a promissory note or bill of exchange, the Act provides that interest shall be calculated at the rate specified, on the amount of the principal money due thereon, from the date of the instrument, until tender or realisation of such amount, or until such date after the institution of a suit to recover such amount as the Court directs. (Sec. 79.) The reader will note the divergence between the law as laid down in this section and the practice of the exchange banks of collecting interest on interest bills until the approximate date of the arrival of the proceeds in London.

The fact that a bill is made payable with interest does not affect the stamp; the Indian Stamp Act of 1899 (Sec. 23) provides that where by the terms of such an instrument interest is expressly made payable, that instrument is not chargeable with duty higher than that with which it would have been chargeable had no mention of interest been made thereon.

As regards bills without the interest clause, it should be remembered that in the case of dishonour it is provided that interest at the rate of 6 per cent. per annum is chargeable from the date at which the bill ought to have

been paid by the party charged, until tender or realisation of the amount due on the bill, or until such date after the institution of a suit to recover the amount of the bill as the Indian Courts may direct.

The Indian law also requires foreign bills of exchange to be protested for dishonour when such protest is required by the law of the place where they are drawn; and as bills from the United Kingdom drawn on India come under this category, in the event of non-acceptance or non-payment, it is the duty of the banker or other agent of the drawer to protest them.

The framers of this Negotiable Instruments Act have been at some pains, too, to fix the liability of the contracting parties under International Law, and for the sake of clearness it is advisable to give the sections *in extenso*—

Section 134 states that, in the absence of a contract to the contrary, the liability of the maker or drawer of a foreign promissory note, bill of exchange, or cheque is regulated in all essential matters by the law of the place where he made the instrument, and the respective liabilities of the acceptor and endorser by the law of the place where the instrument is made payable. In amplification of this section, the following example is given in the Act—

“A bill of exchange was drawn by A in California where the rate of interest is 25 per cent., and accepted by B, payable in Washington, where the rate of interest is 6 per cent. The bill is endorsed in British India, and is dishonoured. An action on the bill is brought against B in British India. He is liable to pay interest at the rate of 6 per cent. only; but if A is charged as drawer, A is liable to pay interest at the rate of 25 per cent.”

Section 135 is a clear and unequivocal expression of the law regarding dishonour: it states—where a promissory note, bill of exchange, or cheque is made payable in a different place from that in which it is made or endorsed, the law of the place where it is made payable determines what constitutes dishonour and what notice of dishonour

is sufficient, and the following example is also given—the Act of 1881 is remarkable for the number of illustrations given to show the working of the various sections—

“A bill of exchange drawn and endorsed in British India, but accepted payable in France, is dishonoured. The endorsee causes it to be protested for such dishonour, and gives notice thereof in accordance with the law of France, though not in accordance with the rules contained in the Indian Negotiable Instruments Act in respect of bills which are not foreign. The notice is sufficient.”

The only other points of importance to note are those contained in Sections 19, 29, and 67 of the Indian Stamp Act, 1899.

Section 19 lays upon the first holder in British India of any bill of exchange, cheque, or promissory note, drawn or made out of British India, the duty of affixing and cancelling the proper stamp. He is required to do this before he presents the bill for acceptance or payment, or endorses, transfers, or otherwise negotiates it in India.

Section 29 states, among other things, that in the absence of agreement to the contrary, the expense of providing the proper stamp shall be borne in the case of bills of exchange by the person drawing, making, or executing such an instrument; while Section 67 is the penal clause which concerns the stamping of the several copies of instruments.

In English law, where a bill of exchange is drawn in a set according to the custom of merchants, and one of the set is duly stamped, the others of the set, unless issued or in some manner negotiated apart from the stamped bill, are exempt from duty; but in British India, any person drawing or executing a bill of exchange or policy of marine insurance purporting to be drawn or executed in a set of two or more, and not at the same time drawing or executing on paper duly stamped the whole number of bills or policies of which such bill or policy purports

the set to consist, shall be punishable with a fine which may extend to Rs. 1,000. (Sec. 67.)

The stamp duties now in force on bills of exchange are—

	<i>If drawn singly.</i>			<i>If drawn in set of two, for each part of the set.</i>			<i>If drawn in set of three, for each part of the set.</i>		
	<i>Rs.</i>	<i>A.</i>	<i>P.</i>	<i>Rs.</i>	<i>A.</i>	<i>P.</i>	<i>Rs.</i>	<i>A.</i>	<i>P.</i>
(a) Where payable on demand the duty is One Anna									
(b) Where payable otherwise than on demand, but not more than one year after date or sight—									
If the amount of the Bill or Note does not exceed Rs. 200		3			2			1	
If it exceeds Rs. 200									
and does not exceed Rs. 400		6			3			2	
Rs. 400		9			5			3	
600		12			6			4	
800		15			8			5	
1,000		1	2		9			6	
1,200		1	8		12			8	
1,600		2	4	1	2		12		
2,500		4	8	2	4		1	8	
5,000		6	12	3	6		2	4	
7,500		9		4	8		3		
10,000		13	8	6	12		4	8	
15,000		18		9			6		
20,000		22	8	11	4		7	8	
25,000		27		13	8		9		
and for every additional Rs. 10,000 or part thereof in excess of Rs. 30,000		9			8		4		

Payable at more than one year after date or sight—

Not exceeding Rs. 10

2 annas

If it exceeds Rs. 10 and does not exceed

Rs. 50

4 „

Rs. 100

8 „

Rs. 200

1 rupee

Rs. 300

Rs. 1, 8 annas

Rs. 400

Rs. 2,

Rs. 500

Rs. 2, 8 annas

Rs. 600

Rs. 3,

Rs. 700

Rs. 4,

Rs. 800

Rs. 4, 8 annas

Rs. 900

Rs. 5,

For every Rs. 500 or part thereof in excess of

Rs. 1,000

Rs. 2, 8 annas

Act No. XLIII of 1923 also amends the Indian Stamp Act of 1899 in respect to promissory notes. It applies to the whole of India.

Where a promissory note is payable on demand the stamp duty is—

If the amount or value does not exceed Rs. 250	1 anna
When the amount or value exceeds Rs. 250 but does not exceed Rs. 1,000 . . . . .	2 annas
In any other case. . . . .	4 annas

When payable otherwise than on demand—the duties are the same as those on bills of exchange for the same amounts payable otherwise than on demand.

The stamp duty as enacted by the Bengal Stamp (Amendment) Act, 1922, on a protest of a bill or note, that is to say, any declaration in writing made by a notary public, or other person lawfully acting as such, attesting the dishonour of a bill of exchange or promissory note is now Rs. 2.

In regard to bills of exchange payable more than one year after date or sight, various amendments, chiefly for revenue purposes, have been made by local legislation in the following provinces, viz., Assam, Bombay, Madras, Bengal, Punjab, Central Provinces, and the United Provinces, but, generally speaking, they are relatively unimportant as far as the merchant or banker dealing with overseas trade are concerned. In the remaining parts of India the duties leviable are regulated by the Indian Stamp Act, as amended by Indian Acts up to the 1st October, 1923.

The operations we have so far examined have been between India and Great Britain and *vice versa*; but as the reader will require to know something about the actual quotations issued by the exchange banks in India, we give one of the lists published by these institutions, together with an explanation of what the rates signify.

The following are Bombay quotations, and are similar in form to those given on the other Indian centres—

London,	Bank Wire	1/4-1/32	=	shillings and pence	for each rupee
"	Bank Demand	1/4-1/16	=	"	" " " "
"	Bank—3 m/s	1/4-5/32	=	"	" " " "
"	Credits—3 m/s	1/4-7/32	=	"	" " " "
"	"	6 m/s 1/4-11/32	=	"	" " " "
Paris,	Bank Demand	= 168½	=	francs	for "100" rupees
"	Credits—3 m/s	170½	=	"	" " "
Berlin,	Bank Demand	137½	=	marks	" "
"	Credits—3 m/s	139½	=	"	" " "
Hong-Kong,	Bank Bills, Demand	143½	=	Rs.	for "100" dollars (local currency)
"	Private, 30 d/s	141½	=	"	" " "
Shanghai	Bank Bills, Demand	193½	=	Rs.	for "100" taels (local currency)
"	Private, 30 d/s	190½	=	"	" " "
Japan	Bank Bills, Demand	152½	=	Rs.	for "100" yen
"	Private, 30 d/s	149½	=	"	" " "
Singapore,	Bank Bills, Demand	175½	=	Rs.	for "100" dollars (local currency)
"	Private, 30 d/s	173	=	"	" " "

Bank Wire, it will be plain to the reader, is our old friend the telegraphic transfer in another guise, so, taking the first quotation, we see that for every rupee paid in Bombay the bank will sell 1s.  $4\frac{1}{32}$ d. to be paid by its London office as soon as the necessary cable has reached its destination. Demand is, of course, the price for a bank bill drawn on London, payable on demand; while the three months' sight quotation is for a similar quality bill payable three months after presentation for sighting to the bank, plus the usual three days' grace allowed under English law. The three and six months' credit rates are for mercantile bills payable at the respective periods drawn under first-class bank credits, three days' grace being allowed.

In the case of Hong-Kong, Shanghai, Japan, and Singapore, the Private 30 days rates mean the price for mercantile bills drawn on the places named, at thirty days' sight.

It will be observed that the rate for the three months' bank bill is higher than that for the demand bill, and the reason is that the purchaser of a three months' bill requires

to get it at such a price that, if the person to whom he sends it in London elects to turn the bill into cash, that is, to discount it, he shall be in no worse position than if the remitter had sent him a demand bill. In other words, the price quoted must include the estimated charge for discounting the bill in the centre upon which it is drawn. In the same way, rates for the credit paper include the discount, plus a small charge for the stamp and the additional risk the buyer runs on commercial paper. The principal factor, therefore, which determines the price of these time, or usance, bills as they are called, is the rate of discount or interest current on the market *on which they are drawn*. It follows, then, that given the telegraphic transfer rate as a basis, we can always find the approximate three months' or six months' rate, as the case may be.

Now, as regards the out-turn of the various bills, it is constantly stated by Anglo-Indian writers that the equivalent of the rupee in the principal currencies is approximately—

1s. 4d. Great Britain
1·68 francs, France, Italy, and Belgium
1·36 marks, Germany
1·6 krone, Austria
0·324 dollars, United States of America
0·65 yen, Japan

But the present writer is of opinion that such statements merely serve as a pitfall for the unwary, and for practical exchange calculations the student is recommended to work out the equivalents for himself. All that is necessary in rates like those of France and Germany, francs and marks per 100 rupees, is to divide by 100, which simply means putting the decimal point after the hundreds (i.e. Fcs. 1·68½, Mks. 1·37½ = 1 rupee). In the other cases, rupees per 100 dollars, taels, etc., we divide 100 by the rate in question; for example: take the Hong-Kong rate—143½ Rs. per \$100 local currency, we get the fraction  $\frac{100}{143\frac{1}{2}} = \frac{16}{23} = \cdot 695$ , showing the equivalent of the

rupee to be Hong-Kong \$0.695, and so on with the other quotations which, worked out in a similar way, indicate that the rupee was worth on the day the rates were current—

In Shanghai	. 0.516 taels—Local currency
In Japan	. 0.656 yen
In Singapore •	. 0.570 dollars—Local currency

Bills on London drawn under first-class bank credits and D/A bills (bills bearing the clause “ documents on acceptance ”) are usually quoted at about the same rate—1s.  $4\frac{7}{32}$ d. in the table given. But for D/P paper (bills against which the documents will only be given up on payment), the rate is usually  $\frac{1}{32}$ d. better for three and four months’ sight bills, and  $\frac{1}{16}$ d. better for six months’ bills, that is to say, a 3 m/s D/P bill could have been purchased, when these rates were quoted, at 1s.  $4\frac{1}{4}$ d. and a 6 m/s D/P bill at 1s.  $4\frac{1}{3}\frac{3}{4}$ d., which in plain language means that the buyer receives more English currency per rupee in each case for the greater risk he runs in purchasing such paper. Needless to say, D/P bills are discountable on the London market, but the credit bills, both clean and D/A (the D/A bills, of course, rank as “ clean ” after acceptance), are always discountable.

Both the brokers and the exchange bankers in India also quote forward rates, which, generally speaking, are governed by the likely cost of cover for their operations. Telegraphic transfers may usually be bought forward at a difference of from  $\frac{1}{32}$ d. to  $\frac{1}{8}$ d. over the ready quotation. Suppose, for example, the cash price of telegraphic transfers on London be 1s.  $4\frac{3}{32}$ d., forward T.T. would be available at anything from 1s.  $4\frac{1}{16}$ d. to 1s.  $3\frac{3}{32}\frac{1}{2}$ d. per rupee (i.e. less sterling receivable in London at the future date), according to the greater or less time ahead for which the contract is made and the estimated cost to the seller of the covering operation. Forward contracts for bills can generally be made at a difference of  $\frac{1}{32}$ d. to  $\frac{1}{16}$ d. over the ordinary rates, say, 3 m/s bills are on offer at 1s.  $4\frac{9}{32}$ d., a trader could possibly arrange to deliver sterling bills



to the bank three months forward at 1s.  $4\frac{5}{16}$ d.—that is, the trader surrenders to the banker more sterling per rupee than he would have done had he had his bills ready for sale when the rate was 1s.  $4\frac{9}{32}$ d.

Exchange banks in London all quote cash rates for telegraphic transfers based on the daily cable quotations received from their Indian branches, and as a rule the London price will be from  $\frac{1}{32}$ d. to  $\frac{1}{8}$ d. over the Indian rates. For instance, a bank's Bombay branch will be willing to instruct its London office to pay in London 1s.  $4\frac{1}{32}$ d. for every rupee paid by the buyer in Bombay, but if the buyer is operating from this side he will most probably find that the exchange bank in London requires 1s.  $4\frac{1}{8}$ d. in exchange for each rupee it transfers to India by cable.

The banks make no charge for the cost of wiring large amounts, but the buyer is expected to pay the cost of the telegram transferring small amounts from London to India and vice versa.

We have spoken of the influence of the various rates of interest (or discount) upon the price for bills, and in this connection it is worth while noting that, until the establishment of the Imperial Bank of India in 1921, there was no universal bank rate ruling throughout India; in each place the associated exchange banks, it is true, worked in concert and fixed a uniform rate, but each of the three Presidency banks was at liberty to fix its own bank rate, and sometimes there was a wide divergence between the rates they quoted. There was rarely a difference of more than 1 per cent. between the Bombay and Bengal rates, but the Bank of Madras rate was often a good deal higher than those of the other Presidency banks. In practice, the official rates of these banks represented the interest they charged on the demand loans which they granted against Government securities; for advances on other securities or for discounts they generally exacted from one-half to 1 per cent. over their official rates. In the

monsoon months, however, accommodation was often cheaper, and ordinary advances were granted at bank rate or even lower.

The amalgamation of the three Presidency banks into one central bank under the title of the Imperial Bank of India is likely to be very beneficial to the Indian money markets. Under the old régime the country had all the disadvantages of banks working in different spheres and under separate management, and none of the advantages of centralisation. There were, as we have shown, three different bank rates; there is now only one, that of the Imperial Bank, in operation. The Imperial Bank, which, of course, is in close co-operation with the Government, will by the very nature of things be able to maintain a much more uniform bank rate than was possible in the old days of the three Presidency banks. The effect is already very noticeable, and, to take only one period, 1921-22, it is certain that in the absence of a strong central institution in close touch with the Government, money rates would, in the exceptional conditions of that year, have been much higher than they actually were.

With regard to money rates prevailing in India outside the Presidency towns, the Indian controller of currency states that it must be understood that the real rates of interest are still more or less established by local custom, and do not rise or fall *pari passu* with the bank rates of interest, which are determined with reference to general trade conditions all over the country. Secondly, the local rates of interest depend upon the greater or less confidence in the local bazaar markets. In considering the relatively high rates of interest which rule in India, it should be remembered that they are frequently liable to seasonal fluctuations. The recent tendency, however, is for rates to exhibit less striking seasonal differences, and this tendency should be strengthened by the development of the central banking institution.

The Presidency banks, it will be remembered, were not

permitted to engage in exchange business outside India and Ceylon; but this disadvantage was to a great extent offset by the lucrative business which came their way through the intermediary of an interesting class of quasi-bankers or discount brokers, called shroffs. The Imperial Bank of India is in a relatively better position now, particularly as it has a London office, though, as we have said, it does not compete with the other banks for exchange business. Still, in view of its connection with the Government, the Imperial Bank is no doubt destined to play a very important part in the future development of banking in India.

We have mentioned shroffs; these native financiers are a curious set of people, and, while their business in some respects may be likened to that of the compradores in China, it is possibly more correct to regard them as the Oriental counterpart of the London discount brokers. It has been customary, even among native writers, to include among the shroff a whole host of money-lenders, such as the Nalta-Kottai, Chetties, Bunyas, Seths, Mahajans, Marwaries, and Multanis; but there are shroffs and shroffs. The shroff, as he is known to the banking world, is not a usurer in the common acceptance of the term, although naturally he exacts a fair commission for his services as an intermediary between the banks and native traders. All the financial institutions—exchange banks as well as the Imperial Bank of India—make full use of his local knowledge, so our time will not be altogether wasted if we take a glance at the work this gentleman does.

Broadly speaking, it is the shroffs who finance the internal trade of India, partly on their own money, partly on funds raised by discounting bills with the banks. But it must not be supposed that the shroff deals direct with the trader, impecunious or otherwise, he is far too important a personage for that, and in at least the early stages requires business to be introduced to him through yet another middleman, the hundi broker. Internal trading

operations consequently pass through several stages before the banks have anything to do with them, and the part played both by the shroff and the hundi broker is well described in the following summary taken from an Indian publication.<sup>1</sup>

An Indian bazaar shopkeeper of limited means finds that, after using all his own money, he still requires, say, Rs. 10,000 to stock his shop suitably. He thereupon approaches the shroff, and the latter, after making very careful inquiries as to the shopkeeper's position, grants the accommodation if he is satisfied that the business is tolerably safe. The operation, as a rule, is arranged through a hundi broker and, in the case referred to, the latter may probably approach about ten shroffs and secure accommodation from each of them to the extent of Rs. 1,000. A hundi (bill of exchange), usually drawn at a currency of about two months, is invariably taken by the shroffs in respect of these advances. There comes a time, however, when the demands on the shroffs are greater than they are able to meet out of their own money, and it is at this point that they are obliged to have recourse to the banks for assistance. The shroffs then take some of the bills they hold to the banks, who discount them on the endorsement of the shroffs. The extent to which the banks take these bills is determined in each case by the standing of the shroff and the strength of the drawers. The limit up to which any one shroff may grant accommodation in the bazaar is, therefore, dependent on two factors, viz., the limit which he himself may think it advisable to place on his transactions with the hundis and the extent to which the banks are prepared to discount paper bearing his endorsement.

By the very nature of things, the banks in India are unable to get into very close touch with the greater part of the native trading community; but as shroffs keep themselves well informed of the position of the traders

<sup>1</sup> *The Indian Year Book*, 1914.

to whom they grant accommodation, it is found in practice that the class of business above referred to is one of the safest in which the banks can engage. The rates charged by the shroffs are usually based on the rates at which they, in turn, get the banks to discount the bills, and these rates necessarily vary according to the standing of the borrower and the season of the year. Two annas per cent. per month above the banks' rate of discount, say,  $1\frac{1}{2}$  per cent., is considered a fair average rate to be charged to a first-class borrower in Bombay. Rates in Calcutta and Madras are on a slightly higher scale, due in a great measure to the fact that the competition among the shroffs for business is not so keen in those places as it is in Bombay.

It must not be supposed that the discounting of hundis is the only business undertaken by the shroffs, for they are known to make loans to cultivators and to advance against gold and silver bullion. Curiously enough, too, they also buy and sell the traders' hundis to each other, and it is these latter operations which are said to rule the rates in the native bazaars.

As regards the import and export trade, here again we find hundis in constant use. As an example, we may first take the import trade. When imports are received and the importer can only get the documents of title to the goods against payment of a bill, bankers not infrequently allow well-known native drawees to obtain possession of their goods in exchange for hundis. In the export trade, too, sometimes the native exporters may raise money from their banks on the security of a hundi pending the shipment, or preparation for shipment, of their goods.

As in England, where we occasionally get accommodation bills, house paper, and the like, without any real trade transaction behind them, so in India, where hundis are sometimes used for accommodation purposes, and remittance of funds from one province to another, rather than

strictly for trade purposes. The native banks have, of course, to keep a watchful eye on this class of paper.

The hundi system seems also to have developed in Mesopotamia, though under a different name. The bills there are called "Campialas" and are drawn at usance of from one to three months. The merchants there are rather apt to over-trade, and they seek long credit from each other, but the banks themselves refuse, as a rule, to discount any bill drawn for a period longer than two months. However, in Mesopotamia, shroffs, brokers, or intermediaries are somewhat conspicuous by their absence, and the banks, therefore, discount bills direct for the merchants. The amount of paper they will take is dependent upon the known financial standing of the parties. If the names are not liked, or if the parties are at all weak, collateral security is called for and held against due payment of the campialas.

Finally, it should be noted that a hundi requires the same stamp as any other bill of exchange of similar usance.

We conclude this section of the book with the nomenclature of the currency, weights, and measures—

## Currency

BRONZE.—*The Pie* = one-twelfth of an anna, or one-third of a pice.

*Half-pice* = one-eighth of an anna.

*Pice* = one-quarter of an anna.

The standard weight of the pice is 75 grains troy, and that of the other coins in proportion.

GOLD.—Gold mohur or 15-rupee piece—weight the same as the British sovereign—123·27447 grains,  $\frac{11}{12}$ ths fine.

NICKEL.—Up to 1919 the only nickel coin issued was the *one-anna* piece, the standard weight of which is

60 grains troy, but legislation has since been introduced providing for the issue of a *four-anna* piece and *eight-anna* piece.

SILVER.—*An eighth of a rupee*, or two-anna piece.

*A quarter-rupee*, or four-anna piece.

*A half-rupee*, or eight-anna piece.

*A rupee* (official title, the Government Rupee).

The standard weight of the Government Rupee is 180 gr. troy, and its fineness eleven-twelfths, that is, 165 gr. of fine silver, and one-twelfth, or 15 gr., of alloy. The other silver coins are of proportionate weight and of the same fineness.

1 pie	= $\frac{1}{2}$ d.
3 pie = 1 pice	= $\frac{1}{4}$ d.
4 pice, or 12 pie = 1 anna	= 1d.
16 annas = 1 rupee	= 1s. 4d.
15 rupees	= £1

(but cf. Chapter V—Report of Indian Currency Committee, 1919—under which the stable relation of the rupee to gold is Rs. 10 to one sovereign, i.e. one rupee for 11.30016 grains of fine gold.)

GOVERNMENT NOTES.—Rs. 1, 2.8, 5, 10, 50, and 100, legal tender throughout British India.

Rs. 500, 1,000, and Rs. 10,000—legal tender in their own circle only.

## Weights and Measures.

The weights and measures in India are not in a wholly satisfactory state, and the want of uniformity throughout the Empire has led to all sorts of agitations to secure the adoption of a universal system, but the results have, so far, not been very apparent; and, although the Government as long ago as 1913 appointed a committee to inquire into and report on the matter, no steps have yet been taken to place the weights and measures upon a better basis.

Those most commonly in use are—

DIVISIONS.	SYSTEMATIC NAMES.	METRIC VALUE.	BRITISH IMPERIAL VALUE.
		<i>Grammes.</i>	<i>Grains.</i>
5 Tolas . . .	1 Tola . . .	11.6638	180
	1 Chittak . . .	58.319022	900
16 Chittaks . . .	1 Seer . . .	933.10436	<i>Pounds.</i> 2-2/35
		<i>Kilogrammes</i>	
5 Seers . . .	1 Passeeree or Punsarie . . .	4.66552	10-2/7
8 Passeerees or 40 seers . . .	1 Imperial or Indian Maund (Known also as the Bengal Maund.)	37.324	82-2/7

The approximate equivalent of the Maund of Bombay is 28 lb.

" " " " Maund of Madras " 25 "

The following should also be noted—

YARN.—A *Morah* = 20 hanks = 16,800 yds.

COTTON.—A *Bale* = 400 lb.

SILK.—In the silk trade a "*Factory Seer*" = 1.86 lb.

PADDY.—One maund of paddy is taken in official statistics as the equivalent of 25 seers of Rice.



## CHAPTER VII

### CEYLON

#### THE TRADE : BANKING AND CURRENCY POSITION IN A NUTSHELL

THERE is not a great deal to write about Ceylon ; conditions there are similar, although not analogous, with those in India ; but its trade, banking, and currency are sufficiently important to call for some reference.

The island lies to the south-east of India ; it has an extreme length of 270 miles and a breadth of 146 miles, with an area of 25,332 square miles. The colony is altogether distinct from India, and the administration is in the hands of a Governor appointed by the Crown, aided by an Executive Council of seven and a Legislative Council of twenty-one. The capital is Colombo, which is also the principal port of call for those lines of steamers which run eastward and westward. The best harbour, however, is that on the east coast, Trincomalee, the principal naval station in the Indian seas.

The estimated population of Ceylon in 1921 was 4,497,854 (including Europeans), 178 per square mile.

The Government financial year up to 1913 was taken from 1st July to 30th June ; it now runs from 1st October to 30th September.

At the close of the financial year 1920-21, the Public Debt of the colony stood at £7,794,000, or £1·732 per head of population. The Public Debt is approximately one and two-third times the annual revenue.

The currency up to 1874 was chiefly silver, in the form of the Rix dollar and its sub-divisions—challies, 144 of which went to the dollar ; but in 1874 the coinage was put on a more stable basis with the Indian rupee as the principal coin. The rupee in Ceylon is equivalent to

100 cents; and by Government Ordinance No. 6 of 1903, it is given a sterling value of 1s. 4d. British sovereigns are also legal tender at the rate of Rs. 15 to £1, but presumably the new basis of Rs. 10 to the £1 in India, will cause a readjustment of values in Ceylon.

Exchange was much to the fore in 1918, and the following summary from the annual Report will best explain the position. India is the channel of exchange between the United Kingdom and Ceylon, and the import and export trade of the island is in normal times almost entirely financed by remittances from London to India by means of the sale of India Council Drafts. The Government of India at the end of 1916 found themselves obliged to restrict the issue of these India Council Drafts, and other expedients had to be adopted. An agreement was come to, with effect from 1st August, 1917, with the Indian Government, by which that Government arranged to place ten lakhs of rupees weekly, the amount required for the payment in India for rice and other foodstuffs, to the credit of the Ceylon Government, for six months, such credit to be utilised only in the purchase of foodstuffs, and by importers approved by the Principal Collector of Customs, who were allowed to draw on this credit. This ten lakhs was to be paid for by a remittance of two lakhs in silver rupees weekly to India, and by the payment of the balance of eight lakhs to the Secretary of State for India in London. By the end of September, however, it was found that the drawings on India had not been so large as had been anticipated, and considerable sums had begun to be placed to the credit of the Ceylon Government in India on account of the purchase of South India teas for the British Government by the Treasury Chest Officer, Colombo, these transactions being financed in the first instance by the Colonial Government. In the circumstances, it was decided that the arrangements for the weekly credit of ten lakhs should remain in abeyance till these credits had been exhausted. This was the position of affairs at the beginning of 1918.

In February, 1918, the balances in India became low, and the arrangement detailed above was reverted to, remittances being made to India and to London in exchange for a credit of ten lakhs weekly in India. By April the credit in India amounted to Rs. 7,700,000, and the arrangement was again allowed to fall into abeyance.

The matter was further complicated by the fact that the Food Controller desired this Government to finance the Ceylon purchase of tea for the Ministry of Food in England, and, as a temporary measure, in February the India Office granted Council Drafts to the total amount of forty lakhs weekly to those exchange banks that had branches in Rangoon and Colombo, to provide for exports of rice and tea from Burma and Ceylon for the Ministry of Food. When the credit provided by these Council Drafts had been exhausted the matter became serious, and a special allotment of Council Drafts was asked for by the Ceylon Government to be divided among the exchange banks in proportion to their shortage of cover. This was agreed to; the drafts were made payable to the Government of Ceylon in India, and were paid for in the first instance by the Crown Agents for the Colonies. Thirteen lakhs weekly in the form of deferred telegraphic transfers payable in India were earmarked for the Government of Ceylon from 26th April, thirteen lakhs were drawn weekly from 26th April to 10th May, and thereafter only the actual requirements were drawn up to September. Meanwhile large payments were being made for coco-nut oil purchased on behalf of the Ministry of Munitions. Payments had been made in rupees locally, but the balance was becoming low, and the amount of some sixty-eight lakhs expended for this purpose locally had to be replaced. Arrangements were made to pay two lakhs weekly to the credit of the Ceylon Government in Madras on account of this advance of sixty-eight lakhs. At the end of September the Government was informed that, as the exchange banks were then in funds in India, no further Council Drafts would be provided after the 27th

of that month till these funds had been exhausted. On representations by the Ceylon Government, however, three allotments monthly of thirteen lakhs each were allowed for the purchase of tea and oil. But on 19th October a marked weakness of the exchange was exhibited, and it was found unnecessary to continue the purchase of special Council Drafts, and the arrangement was accordingly cancelled. It was arranged for the Indian branches of the exchange banks to purchase tea bills in Colombo against remittances offered to them in India.

Ceylon is first and foremost an agricultural colony, and for that reason the trade—like that of India—is largely dependent upon the seasons; but, although the climate and seasons resemble those in India so far as the time and nature of the monsoons are concerned, the conditions are greatly modified by the fact of Ceylon's being an island. The most important of the agricultural products for native consumption is rice in its two forms: paddy (unhusked rice) and the dry grain.

The principal exports in order of importance are: Tea, rubber, and the products of the coco-nut palm (copra, desiccated coco-nut, coco-nut oil, etc.). The principal imports are: Rice, of which an enormous supply is obtained from British India; cotton manufactures; coal and coke; and sugar. Up to 1908 the imports and exports of Ceylon about balanced, then for some years there was a considerable excess of exports over imports, due almost entirely to the influence of rubber. In 1920 imports exceeded exports by about £5,000,000, but in 1921 the figures again closely approximated, the total exports being valued at £25,660,000 and the imports at £26,205,000. The import trade is largely in the hands of Great Britain and her Colonies, which also take the major part of the exports; and the trade statistics of Ceylon go to show that the United Kingdom for some years past has more than maintained her position as against foreign competitors.

The financing of Ceylon's oversea trade is exclusively in the hands of British Colonial banks, and in all essential particulars the procedure followed is the same as in Indian trade. Both interest and non-interest bills are drawn and negotiated on Ceylon, and three and four months is the favourite usance for the bills. There is a good deal of direct business between Ceylon and India, and for the purpose of meeting their cross operations between the two countries, the banks constantly lay down funds in India by means of Council Drafts; that is to say, they instruct their London offices to tender for the Secretary of State for India's remittances, and, when these are encashed in India, the currency necessary for meeting the Ceylon bankers' drawings and sales is at once available.

The stamp duties on bills of exchange in Ceylon are somewhat different from those in force in India; they are on the following scale—

**INLAND BILLS OF EXCHANGE, CHEQUES, PROMISSORY NOTES, ETC.**

(a) Where payable on demand, the duty is . . . 5 cents.

(b) Where payable otherwise than on demand, the duty is—

If the amount of the bill or note does not exceed Rs. 50	5	„
Exceeding Rs. 50 and not exceeding Rs. 100	10	„
„ „ 100 „ „ 250	15	„
„ „ 250 „ „ 500	25	„
„ „ 500 „ „ 1,000	50	„
and for every additional Rs. 1,000 or part thereof	50	„

The duty on foreign bills of exchange drawn in but payable out of Ceylon is the same as the duty on Inland bills of the same amount and tenor, if drawn *singly*; but, if drawn in sets, the duty is payable at the following rates—

	<i>For each part of the set.</i>
Not exceeding Rs. 250 . . . . .	5 cents.
Exceeding Rs. 250 and not exceeding Rs. 500	10 „
„ „ 500 „ „ 1,000	20 „
For each additional Rs. 1,000, or part thereof	20 „

Foreign bills of exchange drawn out of, but payable in Ceylon, are chargeable with the same duties as inland bills.

## Currency of Ceylon.

COPPER.—*Ceylon 1-cent piece; Ceylon half-cent piece.*

NICKEL.—*Ceylon 5-cent piece.*

SILVER.—The *Indian Rupee* (100 cents), equivalent by Ordinance No. 6 of 1903 to 1s. 4d.

*Ceylon 50-cent piece; 25-cent piece; 10-cent piece.*

The 50-cent piece is 800 fine and weighs 90 gr.; the other two silver coins are of the same fineness and proportionate weight.

GOLD.—*British sovereigns*—legal tender at Rs. 15 to £1.

PAPER.—*Ceylon Government Notes*: Rs. 1,000, Rs. 100, Rs. 50, Rs. 10, Rs. 2, and Rs. 1.

## Weights and Measures.

The weights and measures of Ceylon are the same as those of the United Kingdom.

## Imports and Exports.

The total imports from and into the United Kingdom during 1921 and 1922 were as follows—

	1921	1922
Total Imports into the U.K from Ceylon . . . . .	£10,683,006	£10,322,084
Total Exports from the U.K. to Ceylon . . . . .	£3,949,940	£3,581,159

The principal exports from Ceylon to all countries in 1921 were—

Tea . . . . .	£7,514,000
Rubber . . . . .	3,585,000
Desiccated Coco-nut . . . . .	1,773,000
Copra . . . . .	1,620,000
Coco-nut Oil . . . . .	1,002,000

The principal imports were—

Rice . . . . .	£4,640,000
Coal and Coke . . . . .	2,024,000
Cotton manufactures . . . . .	1,647,000
Sugar . . . . .	704,000

The Ceylon Customs tariff for imports is one of 5½ per cent. *ad valorem*, save in the case of intoxicating drinks, tobacco, cigars, cigarettes, and opium, which are subject

to special rates. There is an import duty on cigarettes of Rs. 4 per lb.

The Government has under consideration the making of alterations in the present classification with a view to bringing it more into line with the system in force in the United Kingdom and British India.

For Customs declarations, the values taken must be the wholesale values at place of import or export.

“Declarations are subject to scrutiny and penalty. The Chamber of Commerce, as representing the trade of the Colony, assists by supplying the value on which rated duty is levied. Quantities of imports are ascertained from invoices or by actual examination; of exports, from declarations and by examination of the shipping documents, shippers being liable to penalties for mis-statement. The origin and destination of goods are also obtained from the shipping documents.”<sup>1</sup>

<sup>1</sup> Cf. *Statesman's Year Book*, 1914, p. 111.

## CHAPTER VIII

### • PERSIA

#### AREA, DEBT, AND REVENUE—CURRENCY : PAST AND PRESENT

PERSIA may be conveniently described as a kingdom of Western Asia situated between Turkey in Asia, the Caspian, the Russian Trans-Caspian territory, Afghanistan, and the Persian Gulf. But modern Persia comprises the western and major portion of the so-called Iranian plateau, which rises between the valleys of the Indus and the Tigris, and extends for about 700 miles from north to south, and from 900 miles from east to west, with an approximate area of 630,000 square miles.

The estimated population is 10,000,000, and some authorities say that it increases about 1 per cent. per annum. On an average, the population is little more than fifteen to the square mile.

Persia's total debt (1915) amounted to £6,258,516, equal to £625 per head of population.

The debt consists of loans and advances from the British Government, the Government of India, and the Russian Government; and is made up as follows—

LOANS.	ORIGINAL AMOUNT.			OUTSTANDING.		
	£	s.	d.	£	s.	d.
Russian Loans of 1900 and 1902, each at 5%	3,439,000	-	-	3,164,914	-	-
Indian Gold Loan of 1910—5%	314,281	16	4	281,802	16	4
Loan of 1911	1,111,100	-	-	871,800	-	-
Loan of July, 1911, 5%	1,250,000	-	-	1,250,000	-	-
Anglo-Indian Loan, 1912, 7%	140,000	-	-	140,000	-	-
Russian Loan of May, 1913, 7%	200,000	-	-	200,000	-	-
British Loan of May, 1913, 7%	200,000	-	-	200,000	-	-
British Loan of May, 1913, 7%	100,000	-	-	100,000	-	-
British Loan of 1914	50,000	-	-	50,000	-	-
	<u>1,680,381 16 4</u>			<u>£6,258,516 16 4</u>		

<sup>1</sup> Cf. *Statesman's Year Book*, 1916, pp. 1224-5; and Government White Paper, "Persia No. 2 (1913)."



The Financial Advances made by His Majesty's Government and the Government of India to the Persian Government (outstanding on 1st Jan., 1916) were—

	£	s.	d.
1. Anglo-Indian Loan of 1903-4, at 5% to be repaid by 20th March, 1928. Amount outstanding . . . . .	281,802	16	4
2. Anglo-Indian Advance of February, 1912, at 7% . . . . .	100,000	-	-
3. Anglo-Indian Advance of August, 1912, at 7%, after defeat of gendarmerie in Fars. . . . .	25,000	-	-
4. Anglo-Indian Advance of November, 1912, at 7%, for use of Governor-General of Fars . . . . .	15,000	-	-
5. Anglo-Indian Advance of April, 1913, at 7%, for general purposes of administration, including also £30,000 for such purposes in Fars, and £10,000 for Bushire Custom House . . . . .	200,000	-	-
6. Anglo-Indian Advance of May, 1913, at 7%, for gendarmerie purposes in Fars . . . . .	100,000	-	-
7. Anglo-Indian Advance of July, 1914, at 7%, for gendarmerie purposes in Fars and Kerman . . . . .	50,000	-	-

On 31st December, 1922, the foreign debt of Persia was—

LOANS.	ORIGINAL AMOUNT.			OUTSTANDING.		
	£	s.	d.	£	s.	d.
India 5 per cent. loan . . . . .	314,281	16	4	138,744	17	10
Imperial Bank of Persia . . . . .	11,250,000	—	—	1,199,112	9	1
British Advances 1912-14 . . . . .	490,000	—	—	490,000	—	—
" " 1915-17 . . . . .	817,000	—	—	410,000	—	—
" " kran 1,000,000 at say, 50 kran to £1 . . . . .	20,000	—	—	100,000	—	—
" " 1918-20 kran 92,500,000 at say, 50 kran to £1 . . . . .	1,850,000	—	—	1,850,000	—	—
Approximately . . . . .	£4,741,281	16	4	£4,187,857	6	11

Under the Treaty of 21st March, 1921, between Persia and Soviet Russia, all loans and advances made by Russia to Persia were cancelled. This cancellation included half of the advance of 1915-17 (£817,000), although it was the British Government which paid the entire amount here.<sup>1</sup>

The revenue of Persia for the year 1913-14 amounted to £1,480,778 (the latest available figures), and about half of this sum is derived from taxation; but as practically the whole burden of taxation falls upon the labouring

<sup>1</sup> Cf. *Statesman's Year Book*, Persia, 1923

classes, the number of which is not known, there is little use our describing the incidence as so much per head of population.

At first sight the reader may wonder why it has been thought necessary to include anything about Persia in this book: banking, currency, and trade in that part of the East is rather generally considered to be so crude, that most people are inclined to view its future with indifference. But when one considers that, apart from the large quantities of agricultural produce raised in the country and the growing importance of the silk trade there, Persia is rich in undeveloped mineral resources, it will be recognised that the future opening up of the Empire is likely to be one of the problems with which we shall be faced when the world settles down again after the war.

Scarcity of water must, of course, always be a drawback in the kingdom, for Persia, if not exactly a riverless country, can boast of only one really navigable waterway of importance, the Karun, which was opened to foreign navigation in 1888. Then the absence of good roads and railways militates against commerce with Persia. Five short roads, of an aggregate length of about 900 miles, represent practically the only good routes for equestrian traffic; and the remaining roads, being little more than mere mule tracks, are totally unfitted for any large amount of wheeled traffic.

The only railway possessed by Persia runs from Teheran to Shahabdul-Azim, south of Teheran; it is a single line, 1 metre gauge, and has two branch lines connecting the main line with limestone quarries to the south-east of the city. The railway, which is worked by a Belgian Company, has a total length of only 8 miles, including the two branches. With the development of the country, however, these drawbacks may in time disappear, though we fear the provision of capital for railway enterprises will be somewhat delayed as the result of the enormous war expenditure of the European nations.

That a country so backward in means of internal communication should have a badly organised currency system is not surprising; and, as might be expected, the story of Persian currency is made up of long years of muddle and chaos. Adequately to describe the monetary system of the country would mean the writing of an historical statement; and, interesting as such an account might be, we will spare the reader and give only a summary of the principal items of importance drawn from the fragmentary papers which have appeared from time to time.

The monetary unit of Persia is the silver kran, weighing about 71 gr., the proportion of silver it contains being approximately  $89\frac{1}{2}$  per cent. But anyone who has had dealings with Persia will have heard of a piece of money called the gold toman, which, again, is often spoken of as being equal to 10 krans; and, although we believe at one time both the gold toman and a silver coin of that name did circulate, at the present time the term merely signifies a money of account without any coin to represent it. The gold toman is said still to exist in Persia, but it is very scarce, and the chances are that the country might be searched without one coming to light. The same remarks apply to the dinar, which is also referred to in connection with the toman. In accounts, the toman is the equivalent of 10,000 dinars, but the dinar as a coin does not exist.

Many years ago the curious history of Persian currency was briefly summarised in a paper<sup>1</sup> read before the Institute of Bankers, London; and the following, with a few alterations and omissions, is a paraphrase of the information then given.

The toman was described (in 1892) as a piece of money equal to 10 silver krans and worth about 5s. 9d.; but the word was introduced into Persia by the Monghols, under Jenghiz Khan, in the thirteenth century, and then, as now,

<sup>1</sup> Cf. *Banking in Persia*, by Joseph Rabino, F.S.S., *Institute of Bankers' Journal*, January, 1892 (pp. 21-2).

signified 10,000: applied to currency, it equals 10,000 dinars. The dinar itself was a gold coin weighing 52 gr., and equivalent, according to the lecturer, to about half a sovereign, from which it would appear that a Toman was equivalent to approximately £5,000.

With the Sefavieh dynasty, during the sixteenth century, the toman ceased to be equivalent to 10,000 gold dinars; and under Abbas the Great, a toman of money was equivalent to 50 abbassis—the abbassi was a silver coin weighing about 130 gr., and the value of the toman was, roughly, £3 7s. The abbassi was divided into 4 shahis, weighing each 18 gr. of silver, and worth about 4d. The weight of the silver coinage was, however, soon reduced; and in 1678, 1 toman, or 50 abbassis, was worth £2 6s. 8d. Early in the eighteenth century the abbassi weighed only 84 gr., and the sterling value of the toman was approximately £2 4s.; some years later, the abbassi was again reduced to 72 gr., which made the toman worth only £1 18s., and in 1815 the value of the toman was merely £1. Krans, each weighing 142 gr., were first coined in the reign of Fath Ali Shah, who died in 1835; and the kran was then equal to 5 abbassis, or 20 shahis, and was the tenth part of a toman (which was equivalent to 15s. sterling). The silver shahis subsequently passed out of circulation and, with a further reduction in the weight of the kran, silver abbassis were also withdrawn. Later, the kran suffered several reductions in weight: in 1839, 10 krans (or 1 toman) were worth only 10s. 9½d. and, in 1891, 5s. 9d. At that time, the abbassi, or one-fiftieth of a kran, was worth less than 1½d.; and the shahi, a copper coin weighing 77 gr., was worth a quarter of that amount.

The people, naturally, were the sufferers by this tampering with the coinage, for the continual decrease in the weight or fineness of the coins was obviously an indirect and very severe tax. Alterations in the copper coinage were particularly frequent: we are told that each town had its own coinage, and that it was re-minted every year

at a reduction, the old coins being forcibly brought up to par with the new coins of lesser weight. In the seventeenth century, 1 lb. of copper was coined into 46 kasbeks, worth 1s. 4d.—equal to a profit of 15 per cent.; and, incidentally, the Shah, in 1672, is mentioned as having received a royalty of 2 per cent. on the mintage.

Coming down to the present day, we find the kran still to be the monetary unit, but in a depreciated form: its approximate weight is only 24 nakhods (71 gr.) and, principally owing to the depreciation in the gold value of silver, it is worth now less than half of what it was in 1874, when 25 krans were the equivalent of £1. Some writers are of opinion that the depreciation is, in a measure, due to the exchange operations of the banks; but the probability is that the action of the banks has strengthened rather than weakened the kran rate, which, broadly speaking, apart from the tampering with the coinage, has followed the fluctuations in the price of silver. Since 1895 the value of the coin has seldom been more than about 4½d.—it has sometimes been less; and at the beginning of the year 1916, about 60 krans were given for £1, making the value 4d. per kran.

At the present time, silver and nickel coins are really the only ones in general circulation in Persia. Copper exists only in the outlying provinces, and there in but small quantities. As a matter of fact, it was the depreciation in the copper coinage which led the Government to introduce nickel. In 1896 the Persian mint started, and continued for some time to put into circulation an excessive quantity of copper coins, with the result that by the year 1899, 80 to 83 copper shahis (weighing about four-fifths of a pound) were being given for 1 silver kran (worth 4½d.). The copper coins were thus circulating at less than the silver price of copper. In consequence, the Government decided to take action; and in 1900 they replaced the copper by a nickel coinage, which was subsequently issued in 5 and 10 centime pieces, similar in

size and weight to those circulating in Belgium, and of a nominal value of  $\frac{1}{20}$  and  $\frac{1}{10}$  kran.

Provision was made for gold coins, viz.,  $\frac{1}{2}$  toman,  $\frac{1}{4}$  toman; 1, 2, 5, and 10 toman pieces. No coins of the higher value have been struck for a number of years, and whether any of the smaller denominations now exist is a matter for conjecture: they certainly are not in circulation as current money, owing possibly to the fluctuations in their value expressed in terms of silver krans. The gold toman, as previously stated, is rarely if ever seen; but it should be noted that its present equivalent is 22 krans, while a toman of silver represents 10 krans.

Persian accounts are generally kept in dinars, the dinar being the one-thousandth part of a kran. In book-keeping, therefore, it is necessary to remember that a toman equals 10 krans; a kran, 1,000 dinars; and a shahi, 50 dinars—a rather confusing medley at first sight, but simple enough in practice.

One thing Persia does not seem to have suffered from, at least in recent times, is excess paper issues. Mention is, however, made of the introduction of paper money into Persia during the thirteenth century. During the year 1294, Persia was going through bad times: the King, Kai-Khatu, had squandered the country's funds at such a rate that the national exchequer was practically empty, and all efforts to raise money at Baghdad and Shiraz were fruitless. At last, some brilliant member of the king's court seems to have brought to the notice of his sovereign and the Treasury officials a species of paper money called "Chaw," then in circulation in China. A scheme for its issue was forthwith drawn up, submitted to Kai-Khatu, approved by that august gentleman, and promptly put into circulation in Persia. The imperial edict went forth that transactions in specie were abolished, and that Chaw was henceforth to be the legal tender of the realm. All gold and silver money was called in and notes given in exchange, and circulating offices, or chaw houses, at which

the exchanges could be made, were set up throughout the country. But the king, in so lightly taking the advice of his ministers, had reckoned without his host, and the notes in denominations of from half a dirhem to 10 dinars were not destined to remain long in circulation. They were issued at Tabriz, in the month of Zilkadeh, 693 (Sept.—Oct., 1294), and merchants and shopkeepers were forced to accept them. In three days, Tabriz was a wilderness, and trade there at a standstill. People suspected fraud, closed their shops, but concealed their wares; even common food was unobtainable. Naturally the paper money immediately became a depreciated medium of exchange; and a mann of bread in some districts was sold for a dinar, and a horse worth 15 dinars was sold for 150. All caravan traffic ceased. Evil-doers hid themselves at night in dark corners and, pouncing upon the people in the streets, robbed them of all they had; and when the victims remonstrated, the robbers facetiously offered them scraps of paper, saying: "Chaw, chaw." On Friday, the people in the mosques first cursed Izz ed-din Muzafer, the instigator of the paper money, then went and murdered him; this so frightened the nobles and leading men of the place, that they notified the Prime Minister that if this state of affairs continued for a few days longer, the Government might as well wash its hands of the Persian Empire. The King himself was informed that the paper money threatened to be the cause of the Empire's destruction and that a revolt was imminent. The warning was sufficient: Kai-Khatu cancelled his Yerligh (imperial command) and recalled the agents from the Provinces. Confidence was thus restored; the people returned to Tabriz; and, as one of their historians did, probably thanked God that the "chaw" was over.<sup>1</sup>

After this disastrous ending to the attempt to introduce paper money into the country, the Persian Government

<sup>1</sup> Cf. General Schindler's translation from the works of Wassaf, Markhind, and Khondamir, quoted by J. Rabino—*Journal of the Institute of Bankers*, January, 1892.

seems to have been disinclined ever again to revive the question. The lesson they received was a salutary one and, as far as can be ascertained, successive Governments have never seriously considered the re-introduction of paper issues under their own auspices. It has been left to the banks to accustom the people to the use of paper in the shape of bank notes, and even this form of currency is as yet in its infancy. The Imperial Bank of Persia has at present the sole right of issuing bank notes up to a limit of £800,000, without the assent of the Persian Government. The issue of the notes is on the basis of the silver kran and, as a rule, it has been found possible to undertake local issues only. That is to say, the notes are payable at the issuing branches of the bank only, for the very simple reason that, owing to the almost insuperable difficulties in the way of the speedy and safe transport of specie from place to place in Persia, it is dangerous, in fact, impracticable—to have bank notes payable at more than one place. For example, in the Isfahan district of Persia, the Imperial Bank's notes in circulation are: 1, 2, 3, 5, 10, 20, 25, 50, 100, 500, and 1,000 tomans. They are payable in silver currency, and are stamped "Payable in Isfahan only," and pass current at par; but apparently some of these notes were issued without this endorsement; and these (the Consul reports in 1913) were subject to a discount on presentation for payment at the rate of 2 per cent., but subject to fluctuation.

In the Yezd district, notes up to 50 tomans are in constant use, but the 100 toman note is seldom seen.

In 1922-23, the export of gold and silver in any form was prohibited, though each pilgrim to the holy shrine of Iraq was permitted to carry on his person a sum of 10 tomans. The prohibition was also extended to include shipments in specie from one port in Persia to another on the Persian Gulf under a cabotage seal affixed by the customs authorities, owing to the difficulty of sending money by land. The principal reason for this measure



was " the fear inspired in the minds of Persian merchants by the adverse trade balance both in 1921 and 1922, and the consequent depreciation of the value of the kran, particularly in respect of British and Indian currency, since the imports from these countries to-day very largely exceed the exports to the same countries. Owing to the depreciated value of the kran its export was profitable because of its higher silver content and Persian merchants, therefore, argued that their country would soon be drained dry of silver coin. This conviction was strengthened by the fact that the difficulty of moving specie in Persia occasionally created a temporary shortage of silver in the larger towns and the cry was therefore raised that the country was being denuded of its currency. The result of prohibiting the transport of currency by sea from one port in the Persian Gulf to another, or from Tehran to Abadan via Iraq under cabotage seal, was seen by the Majlis to be deleterious to Persian interests since it impeded the free circulation of currency and rendered it almost impossible to pay the Persian employees of the Anglo-Persian Oil Company in remote areas." The law prohibiting the export, therefore, had to be amended.

Owing to the adverse effect on trade by Persian and foreign merchants in the Persian Gulf, the clause forbidding the export of rupees also had to be repealed.<sup>1</sup>

<sup>1</sup> Cf. *Trade and Industry of Persia*, R. H. Hadow, M.C., June, 1923.

## CHAPTER IX

### **Banking and Exchange in Persia**

THE progress of banking in Persia has been uncommonly slow. Prior to 1888, all the banking that was done was in the hands of the sarrafs—native money-changers—who are still very much in evidence in Persia. The sarrafs only resemble genuine bankers in so far as they take care of other people's money, and let them have it when and where they want it; but there the comparison ends. The utility of European banking lies in the manner in which the banker's funds are placed at the disposal of trade and clients at low rates of interest, but the Persian sarraf's money and services are only available at ruinous charges. Their rates for discounts and advances are hardly ever lower than 12 per cent.—very frequently higher—and it is said that a Persian who obtains accommodation at less than that rate considers he gets money for nothing. The interest charged on advances varies with the value of the security deposited, the poorer the security, the higher the interest; and for loans against other than first-class cover the most usurious rates are exacted, 10 per cent. per month being no uncommon rate. Yet, such is the conservatism of the average Persian trader, that he prefers the sarraf to do his business for him, even to the extent of paying that enterprising gentleman a commission of from 1 to 6 per cent. for transferring funds from place to place in Persia—a business which the European banks are always prepared to carry out at about par. That conditions have improved very little from what they were in 1670 is evident, for we read that merchants were then

charged 12 per cent., while other persons paid 24 per cent. or more.

The first European bank to start operations in Persia was the New Oriental Banking Corporation, but it does not appear to have had a very long run, and ceded its business in April, 1890, to the Imperial Bank of Persia, which latter had been instituted in the autumn of 1889, following a concession granted by the Shah of Persia to Baron Julius de Reuter for the formation of a State bank. The Imperial Bank was incorporated by British Royal Charter, 1889; its authorised capital is £4,000,000, but only £650,000 is subscribed and paid up. The Bank has made good progress in spite of almost heart-breaking difficulties: it has branches and agencies in all the important towns, its note circulation is steadily increasing throughout the principal trading centres of the country, and its paper is readily accepted by all classes. The notes constitute a first lien on the Bank's reserve, and the amount in circulation in September, 1922, was £815,822, the reserve being £340,000.

The only other bank of importance in Persia is a Russian institution called the Banque d'Escompte, which has arisen from the ashes of the Banque des Prets de Perse, a semi-banking and pawnbroking concern of the *mont-de-piété* type. The Banque d'Escompte is principally responsible for the banking and financial operations between Persia and Russia, and has been the intermediary through which the large Russian loans to Persia have been negotiated. Its chief branch is at Teheran. The Bank with all its concessions was transferred to the Persian Government of Russia in March, 1921.

Banking and currency conditions in Persia are to some extent reflected in its exchanges, which are confusing and difficult to follow intelligibly. Correctly speaking, exchange in Persia on London is governed chiefly by the course of exports and imports; but, having got thus far, we find there are two other influences which have an effect upon

the kran exchange, viz., the Russian rouble quotation and the Indian rupee quotation: the former affects exchange in the north of Persia, and the latter in the south, and matters are made all the more complicated by reason of the fact that there is no market in London for exchange on Persia. An example will perhaps make clear how the exchanges are worked.

The Provinces of the North export chiefly to Russia, consequently Russia has considerable payments to make to the Persian exporters, and remittances are frequently made in the shape of bills or transfers drawn—Petrograd on London; and how these Russian remittances are disposed of is soon explained.

There is usually due to London large sums in payment for the British Empire's share in Persia's foreign trade. Now, the excess of the British Empire's imports into Persia over the exports from that country during 1921-22, was about 25 per cent., and in such circumstances it is obvious that not sufficient exchange, Persia on London, is available for would-be remitters. What the Persian importers do, therefore, is to settle the indebtedness by purchasing whatever Russian exchange is offering and remitting it to London; and, if for any reason there is a scarcity of Russian remittances, the market is soon in a bad way. In fact, that is precisely what happened at the outbreak of war, when there was a sudden rise in the rouble rate on London, and for some time transfers from Petrograd to London were practically unobtainable. The effect on Persia was that those under the necessity of making remittances for the import of Manchester piece goods, tea, etc., were obliged to pay some 20 per cent. above the pre-war cost of remittances. In August, 1914, for instance, the kran rate jumped to 67, that is to say, the potential purchaser of a bill for £1 sterling on London was required to surrender 67 krans of Persian currency for each British sovereign payable in London. This state of affairs continued for several months, and not

until exports to Russia were resumed were transfers on London forthcoming at anything like normal rates. In 1921-22 the Russian remittances offering were infinitesimal.

Demand remittances on Bombay are to some extent obtainable in ordinary times, but the supply of rupee paper is liable to be upset by European and other influences. The pearl trade between Bombay and Bahrein is responsible for the bringing into the country of most of the rupees. There is no bank in Bahrein, and many lacs of Indian currency notes in denominations of Rs. 500 and Rs. 1,000 are imported each year for the use of the pearl buyers from India; but the notes subsequently find their way to the exchange centres and are useful for remittances. In 1914, however, immediately rumours of strained relations between the Great Powers became current, pearl dealers ceased buying; and the outbreak of war was at once followed by a complete exodus of rupee notes from Bahrein to India, thus closing another avenue for the supply of exchange remittances.

Finally, there is the influence of silver on the exchange.

The monetary unit of Persia being the silver kran, exchange in a greater or less degree is subject to the fluctuations of the gold price of silver on the London market; but, as the reader will have learned from a perusal of the preceding paragraphs, there are times when the price of silver in London has little or no relation to the rate of exchange in Persia. Nevertheless, any continued rise or fall in the price of silver is certain to be followed by like movements in the kran exchange.

Exchange quotations with Persia are not published in London, but the following details will be of interest to readers wishing to get some idea of the trend of market rates.

**ISFAHAN.**—The selling rates of the Imperial Bank of Persia for sterling drafts on London during the

Government's financial year, April, 1912, to March, 1913, were—

		Per £1			Per £1		
April,	1912,	53½	Krans	October,	1912, 54½	Krans	
May,	"	52½	"	November,	"	54½	"
June,	"	52½	"	December,	"	54½	"
July,	"	53½	"	January,	1913,	54½	"
August,	"	53½	"	February,	"	54½	"
September,	"	54½	"	March,	"	54½	"

The maximum rate of exchange for the year 1913-14 was 55½ kran to the £1, and the minimum rate 53½. The average rate for the year was 54·375 kran to the £1. The maximum rate for the year 1912-13 (Jan. and Feb., 1913), 54½ kran; minimum rate for the year 1912-13 (May and June, 1912), 52½ kran; average rate for the year, 53·83 kran to £1.

In the Yezd district, the average selling rate for three months' bills on London was 53·33 kran per £1; on Bombay was 28·125 rupees per 100 kran.

Taking the whole of Persia, a more correct average for the year in question would be 55½ kran to the £1; and, as a general rule, it is found that rates are lower in the summer and autumn than in the earlier months of the year.

War conditions are reflected in the period 1914-15 and, as the following quotations indicate, the depreciation in the exchange value of the kran was very heavy—

		Per £1			Per £1	
April,	1914,	55½	Krans	November,	1914, 68½	Krans
May,	"	55½	"	December,	" 68½	"
June,	"	56	"	January,	1915, 67	"
July,	"	57½	"	February,	" 54½	"
August,	"	65	"	March,	" 62	"
September,	"	68	"			

The improvements from January onwards was due to the resumption on a small scale of exports to Russia. As a matter of fact, the rate of exchange in Persia for telegraphic transfers on London varied a good deal during the year 1915. In June, 1915, 59 kran would purchase £1 payable in London, but by August the rate reached 69 kran to £1, and dropped from that figure to 57 kran

at the end of November; while in April, 1916, £1 was worth only 43 krans: or, to put it another way, in exchange for 43 silver krans paid in Persia, the bank would pay £1 in London as soon as the necessary cable had reached the office in London. The average rate of exchange for the Persian year, March, 1922 to March, 1923, was 56·56 krans to £1, and 1,000 krans to 365 Indian rupees. The rate at the end of June, 1923, was 49·5 krans to the £1.

Exchange in Khorasan—the North Central Province of Persia, which borders on the Russian Trans-Caspian Province—is quoted in silver krans per 100 Russian roubles; and the following are the number of krans required to purchase a bill for 100 roubles during each of the months indicated, viz.—

April–September, 1914	.	578	Krans per 100 roubles
October,	"	578	" " "
November,	"	583	" " "
December,	"	576	" " "
January–March, 1915	.	580	" " "

Lastly, there are the Bahrein Islands, which lie in the Persian Gulf in a bay near the coast of Arabia. Mention has already been made of the fact that exchange in the Bahrein Islands chiefly consists of operations between that part and India (Bombay); and in this connection it should also be noted that English sovereigns and Indian currency, both paper and silver, are the principal currency of the Islands. The British Consul at Bahrein states that 16 annas are taken as the equivalent of 1 rupee, and 15 rupees go to £1. To a limited extent, the old Maria Theresa dollars also circulate and, although not much in favour, they pass as currency owing to their popularity on the mainland of Arabia. For exchange purposes, they are quoted in rupees to 100 dollars; and, during 1914, their value fluctuated considerably, the range of prices being between 123 to 150 rupees for 100 dollars.

Bills of exchange drawn on Persia do not differ materially from those used in connection with the trade of India: some merchants draw bills "documents deliverable upon

acceptance" and some "upon payment," the financial status and responsibility of the drawer and drawee being usually the deciding factors as to which class of bill shall be negotiated.

The usance of the bills varies from thirty to ninety days' sight, and they are mostly drawn in pounds sterling. Many of the bills passing through the banks' hands contain the interest clause: on those up to sixty days' sight, interest at as high as 7 per cent. per annum is collected from the drawees; but for longer usance paper—over sixty and up to ninety days' sight—he will probably be called upon to pay 8 per cent. per annum or more.

Persia is one of those fortunate countries where no stamp duty is charged on bills of exchange; but bills drawn in the United Kingdom on Persia must, of course, bear the usual stamps required by the English Stamp Act.

Not all the bills drawn in Persia on the United Kingdom pass through the hands of the banks; some of the exporters there are of opinion that the bankers do not differentiate sufficiently between the various names on the bills of exchange. It matters not, they say, whether the classification of the paper is good, bad, or indifferent: it is all negotiated at the same rate of exchange; consequently many merchants prefer to sell their bills in the bazaars, where they often get a better price for their paper. The shroffs who buy the bills in the bazaar send them direct to London for encashment, and the banks thus lose a certain proportion of the business.

For the rest, it should be noted that for general purposes the monetary unit is still the kran, which varies considerably in value from time to time. 10 krans are the equivalent of one toman, and the kran is sub-divided into 20 shahis. For banking purposes the kran is also divided into 100 cents, and in the bazaars it is still known as one hazar, this term being a survival of the time when the kran was divided into 1,000 dinars.

In his report to June, 1923, the Secretary in Charge of



Commercial Affairs at the British Legation, Teheran, writes—

“ Arrangements are at present being made by the Iraq Railways for direct forwarding of merchandise from Basrah to Kermanshah, and if delivery of consignments at the latter place within 6 or 8 weeks from the time of shipment from Europe can be effected on delivery of bills of lading to the railway authorities, a considerable saving will undoubtedly be effected as the merchant is at present in the habit of borrowing money at rates of interest varying from 7 per cent. to 18 per cent. and even 24 per cent. from native bankers, in cases where shipment cannot properly be undertaken through foreign banks.”

## CHAPTER X

### THE TRADE OF PERSIA—MONEY, WEIGHTS AND MEASURES

PERSIA's foreign trade is at present not very extensive: faulty distribution, the absence of up-to-date transport facilities, and a badly-organised currency and banking system all operate against any great advance in the commerce of the country. Yet, in spite of all these disadvantages, trade during the last few years has made good progress; and once Persia gets into the hands of an intelligent and trustworthy administration, there is no doubt that striking results will follow.

In the list of imports, woven cotton goods occupy the premier position, and of these nearly 50 per cent. are supplied by the British Empire and British India. Russia used to be a formidable competitor for this trade, and actually imported into Persia in the year 1912-13 goods to the value of £1,681,030 as against £1,174,109 sent by the British Empire and £305,211 sent from India. In 1921 the imports of cotton piece goods were valued at £3,368,000. Sugar (loaf and powdered) ranks second in order of importance, the total imports in 1921-22 from all sources amounting to £2,523,214; nails, screws, iron piping, etc., account for £594,290; then comes tea to the amount of £559,000, the bulk of which may safely be classified as emanating from British India. The rest of the imports in approximate order of value consist of woollens, cotton yarn, petroleum, hardware, iron and steel, dyes, rice, and spices.

The principal exports are : Oil and kindred substances,

of which Persia exported, in 1921-22, £5,761,000, practically all sent to Egypt for subsequent distribution; woollen carpets, £1,182,000, sent principally to Europe and America in satisfaction of a growing demand which promises to make the carpet trade the most important of Persian industries; fruits, nuts, etc., £480,000; opium, £275,000. The remaining exports run into very small figures, and are made up of wool, silk, tobacco, hides and skins, wheat, barley and oats, gum and pearls.

For the period March, 1921, to March, 1922, imports represented 55 per cent. of the total foreign trade of Persia and exports 45 per cent. The British Empire's participation in Persia's foreign trade was nearly 60 per cent. The percentage of this trade enjoyed by Russia before the disruption of that country was 62·7 per cent., and owing to the geographical proximity of Russia, the probability is that she will ere long regain that position, added to which we must remember that the Provinces of the North of Persia, which deal principally with Russia, contain the richest class of traders, while the southern Provinces (with which the British Empire chiefly deals) contain the poorer merchants.

It is hardly worth while our giving detailed lists of Persia's imports and exports, but the following statistics for the years 1913-14 to 1920-21 will serve to show the extent of the foreign trade of the country.

The statistics published by the Persian Minister of Finance give the values of the imports and exports for these years as—

YEARS.	IMPORTS.	EXPORTS.	YEARS.	IMPORTS.	EXPORTS.
	£	£		£	£
1913-14	11,766,633	8,287,993	1917-18	15,602,200	11,290,500
1914-15	8,322,030	6,600,960	1918-19	17,010,240	9,531,030
1915-16	7,735,000	6,285,000	1919-20	25,191,704	14,712,692
1916-17	14,452,100	12,761,000	1920-21	14,183,842	10,917,023

The total trade between Persia and the United Kingdom,

according to the Board of Trade Returns, for 1913 and 1918-22 was—

	1913.	1918.	1919.	1920.	1921.	1922.
	£	£	£	£	£	£
Imports from Persia to U.K.	429,562	212,700	1,683,198	3,743,305	6,540,141	8,124,238
Exports to Persia from U.K.	724,808	1,277,000	1,661,102	2,206,757	1,511,019	1,702,540

The total imports into Persia for the year ending 31st March, 1923, were valued at krans 619,201,046, and the total exports from Persia were valued at krans 733,982,843. The rate of exchange during the period in question varied from 52 krans to 45 krans to the £1, and on 30th January, 1924, stood at 45 krans to £1.

### CUSTOMS DUTIES

The Persian Customs Administration is under Belgian direction, and the following are the principal Import and Export duties levied—

#### IMPORT DUTIES

Tea—"white" . . . . .	6 krans per batman (6½ lbs.)
"other" . . . . .	4 " "
Sugar . . . . .	50 cents. (10 cents. = ½ d.) to 1 kran per batman, according to quality, plus a temporary surtax of the same amount
Matches . . . . .	1 kran 50 cents. per batman
Cotton piece goods . . . . .	2 krans 40 cents. per batman
Other piece goods . . . . .	Various rates, roughly according to value
Leather . . . . .	1 kran 50 cents. to 3 krans per batman
Most luxury goods . . . . .	15% <i>ad valorem</i>
Soap—scented . . . . .	20% " "
"other" . . . . .	10% " "
Bicycles, Motors, Tyres, etc. . . . .	15% " "
Cigarettes in cartons . . . . .	25 krans per batman (gross weight)
Cigarettes & Tobacco—other . . . . .	15 " " "

#### EXPORT DUTIES

Carpets with aniline dyes . . . . .	12% <i>ad valorem</i>
Pearls and precious stones . . . . .	5% " "
Opium . . . . .	20 krans per batman

The customs administration registers only net weights unless gross weight is expressly declared in the existing tariff as being assessable to duty.

We may add a word or two about inland transport of goods in Persia. As is well known, this takes place by caravan or camels, mules and donkeys, the route and the season of the year being the deciding factors as to which method shall be employed. The average speed of a caravan is not more than 15 miles per day, and the other means of conveyance are, if anything, slower. The tediousness of this old-world procedure may be gauged when it is remembered that the carrying capacity of a camel is about 500 lb. and that of a mule 240–360 lb., according to the class of animal employed and the nature of the road traversed; but the humble donkey can only carry a burden of from 180–200 lb. The following examples—taken at random—will give the reader some idea of the time and expense involved in forwarding merchandise by the usual trade routes.

From Yezd to Kerman, a distance of about 210 miles, takes from eleven to twenty days, and costs from £4 10s. to £6 per mule load. The distance from Isfahan to Yezd varies from 190 to 200 miles, according to the route followed; in normal times, camels, mules, or donkeys take eight to twelve days, and the charge is anything from 150 to 300 krans (£3–£6) for a load of 100 shah máns, 1,300 lb. For the rest, it may be noted that brigandage is frequent; and even when the light-fingered gentry are absent, a heavy toll is exacted by self-constituted watchers on some of the roads.

The mention of shah máns is a warning to the writer that this chapter must be brought to a close, so without further talk we will turn to the money, weights and measures of Persia.

We have already said a good deal about the currency, and it will therefore be more satisfactory,

and possibly more useful, if we now give the coins which are in circulation in one or two of the principal districts.

The coins in circulation in the Isfahan district are—

							s.	d.
COPPER.	4	pul (1 sannar siah, i.e., sad dinar,						
		100 dinars)	.	.	.	.	—	0.22
NICKEL.	1	shahi safid	.	.	.	.	—	0.22
	2	shahis (sannar-i-safid)	.	.	.	.	—	0.44
SILVER.	3	shahis	.	.	.	.	—	0.65
	5	"	.	.	.	.	—	1.09
	10	"	.	.	.	.	—	2.18
	1	kran	.	.	.	.	—	4.36
	2	krans	.	.	.	.	—	8.73
	5	"	.	.	.	.	1	9.82

[Note.—40 2-pul pieces or 20 shahis = 1 kran; 10 krans = 1 toman.]

In Yezd there are no copper coins in circulation.

							s.	d.
SILVER.	$\frac{1}{2}$	kran	.	.	.	.	—	2.18
	1	"	.	.	.	.	—	4.36
	2	krans	.	.	.	.	—	8.73
	5	"	.	.	.	.	1	9.82
NICKEL.	2	shahis	.	.	.	.	—	0.44
	1	"	.	.	.	.	—	0.22

At Sultanabad, which is about 180 miles north-west of Isfahan, similar nickel shahis circulate; but the silver coins are—

							s.	d.
	5	shahis	.	.	.	.	0	1.09
	10	"	.	.	.	.	0	2.18
	1	kran	.	.	.	.	0	4.36
	2	krans	.	.	.	.	0	8.73

The sterling equivalent of the above-mentioned coins must be taken as approximate only, as owing to the variation in the value of the silver kran they are sometimes worth more, sometimes worth less. The rate we have taken here is 55 krans to £1.

## Weights and Measures.

The weights and measures also vary in the different provinces, most articles being bought and sold by a weight called the batman or mán; but the actual unit of measure

is really the Miskal = 71 gr., which is sub-divided into 24 nakhods = 2.96 gr.; while the nakhod is further sub-divided into 4 gandum = .74 gr. Then we have the sir, which is equal to 16 miskals; and the abbassi, wakkeh, or kervankeh = 5 sir. Bearing this curious agglomeration in mind, we get—

640 miskals . . .	1 Tabriz mán = 6.547 lb. avoird.
2 Tabriz mán . . .	1 Shah mán
100 Tabriz mán . . .	1 Kharwar

The use of the Kharwar is mainly confined to dealings in corn, straw, coal, etc.

The unit of weight in the Isfahan district is the Isfahan mán, or mán-i-shah, which is the equivalent of 2 Tabriz mán; and the following are given by the Consul-General as the weights in use—

4 gandums . . .	1 nukhoud
24 nukhouds . . .	1 miskal
4 miskals . . .	1 nar
10 „ . . .	2½ nars
20 „ „ . . .	5 „
40 „ . . .	10 „
80 „ . . .	1 bistou panj.
160 „ . . .	1 panjeh = 1.62 lb. avoird.
2 panjehs . . .	1 sad dirham
4 „ . . .	(½ mán-i-shah) 1 mán-i-Tabriz
6 „ . . .	3 chareks
8 „ . . .	(1 mán-i-shah) = 12.98 lb. avoird.
20 mán-i-shah . . .	1 bar (load)
50 „ . . .	1 kharvar = 649 lb. avoird.

In practice, the shah mán is generally calculated as equivalent to 13 lb. avoirdupois, and the kharvar to 650 lb. avoirdupois.

### MEASURES OF LENGTH

The unit of length is the zar—

2 bahars . . .	1 gireh = 2.56 inches
4 girehs . . .	1 charak (or chahar yeh, i.e. quarter)
4 chareks . . .	1 zar = 40.95 inches

6,000 zars equal, theoretically, 1 farsakh; but the farsakh varies according to the nature of the ground, from 3 to

4 miles being the distance traversed in one hour at the walk by a man on horseback or on a mule.

### SURFACE MEASURE

The unit is the jarib, and in Isfahan there are several in use. We select the following as being the most common—

Jarib-i-Shah . . .	1,067 square zars
Jarib-i-Kohneh . . .	800 " "
Jarib-i-Rasm . . .	693½ " "
1 nei . . .	5½ zars
1 nei-i-mazroub (square nei)	26½ square zars
4 " . . .	1 Kifiz-i-shah = 107 square zars
10 Kifiz-i-Shah . . .	1 Jarib-i-Shah
7½ " . . .	1 Jarib-i-Kohneh
6½ " . . .	1 Jarib-i-Rasm

YEZD.—The mán-i-shah is the principal weight in Yezd: it should equal 2 mán-i-Tabriz, but is usually less in this Province. The following are the sub-divisions in use—

Mán-i-Shah . (400 direm), approximately . . .	13 lb.
Half-mán (nim mán) . . .	6½ lb.
Quarter mán (known as "sad direm") . . .	3½ lb.
One-eighth mán (known as "panjah") . . .	1·625 lb.
One-sixteenth mán (known as "bisto-panj") . . .	0·8125 lb.
One-thirty-second mán ("dawazdah") . . .	0·40625 lb.

Grain is usually bought and sold by the kharvar.

MEASURE.—As with the mán-i-shah, so the Yezd gez (or zar) is short, equalling approximately 1 metre; but, in Yezd, it is claimed that the metre is shorter than the zar.

The Yezd farsakh is not much more than 3 miles.

AT SULTANABAD.—1 Tabriz mán of 640 miskals = 6½ lb.; and for measures, the zar of 16 girehs = 104 centims, or practically 41 in.

In the Bahrein Islands there are no proper standard weights, and those used by the shopkeepers are frequently under standard. The weights are—

1 ratl. or kijas . . .	1·54 lb. (avoirdupois)
1 ruba . . .	4·11 " "
14 rubas = 1 mán . . .	57·6 " "
10 máns = 1 rifaah . . .	576 " "



In the pearl trade at Bahrein, the unit of weight is supposed to be based on the Indian "chao" measure, but, as a matter of fact, the Bahrein chao is equal to 4 Indian chaos. The following should be noted—

100 dukra	.	.	.	1 chao
330 chao	.	.	.	1 miskal or 149 grains Troy
66 habbe	.	.	.	1 miskal

#### LINEAL MEASURE

1 dhira (cubit)	.	.	.	18½ inches
4 dhira = 1 bá (fathom)				6 feet 3 inches

As a matter of interest it may be stated that the Persian Government have been engaged in revising the country's finances since the middle of 1921, under the advice and direction of financial experts from the United States of America, who have been specially engaged for the purpose by the Persian Ministry of Finance. Their report is awaited with interest.

## CHAPTER XI

# THE STRAITS SETTLEMENTS

### PRINCIPALLY ON CURRENCY

THE Straits Settlements comprise a number of settlements in or on the Straits of Malacca, the whole forming a British Crown Colony. The principal settlements are: Singapore, Penang, and Malacca: but Singapore includes Christmas Island and the Keeling Islands, in the Indian Ocean; while Penang embraces (in addition to the Island of Penang) Province Wellesley and a district called the Dindings, which is on the mainland of the Malay Peninsula.

The capital is Singapore.

The area of the Straits Settlements, according to latest returns, is 1,572 square miles (excluding Labuan); the estimated population in 1921 was 881,939—approximately 580 persons to the square mile.

The debt at the beginning of 1922 amounted to £6,913,000, which represented borrowings for public works, equal to £9·389 per head of population.

Under the War Loan Ordinance No. 17 of 1916 an amount of \$42,063,700 in 6 per cent. Bonds, repayable on 15th November, 1919, and under War Loan Ordinance No. 6 of 1918, a sum of \$20,665,800 in 5½ per cent. bonds redeemable on 20th July, 1928, had been raised by 31st December, 1918.

The Straits Settlements' figures include those of Christmas Island and the Cocos or Keeling Islands. Labuan, however, was incorporated with Singapore on 1st January, 1907; but provision was made for its establishment as a separate settlement of the Colony of the Straits Settlements, by Ordinance No. 3 of 1911, with effect from 1st December, 1912. Its area is 28 square miles, and the population about 6,746. •

With this brief introduction, we will turn to the currency question of the Colony.

The early history of currency in the Straits Settlements is, like that of most other nations, a tale of confusion and chaos arising out of adherence to the silver standard. There was no fixed unit of exchange, and most transactions were carried out with the old Spanish or Carolus dollar, which had been introduced by the Portuguese traders.

This dollar crops up under all sorts of guises or names in the scanty literature of the eighteenth century: the pillar dollar, the cannon dollar, and the Carolus dollar are really all one and the same coin, viz., that issued in the reign of Charles V of Spain; and its weight and fineness, being well known, appear to have made it a great favourite with the natives of the various islands. Chalmers, in his *History of Colonial Currency*, quotes an old author (Heiss) as the authority for the statement that on these coins first appeared the type of the Pillars of Hercules, with the modern device *plus ultra* in lieu of the ancient *non plus ultra*, because Cristobel Colon had proved that there were other lands and other worlds beyond the limits set by Hercules. Some of the pillar dollars are known to have been minted in Mexico; but, according to another author—José Caballero—it was only in the Indies that silver money was coined by order of this same Charles V, and this bore the device of the pillars of Hercules rising over the waves of the sea. The reason the Malays term the coins "Cannon Dollars" is that they mistake the pillars of Hercules for the recognised pioneers of European civilisation.<sup>1</sup>

In course of time the quantity of these dollars in circulation became insufficient for the demands of trade, and various substitutes for the Spanish coin had to be improvised and introduced. For many years the Straits

<sup>1</sup> Cf. Robert Chalmers, *History of Currency in the British Colonies*, p. 382; and *loc. cit.*, Appendix—391.

Settlements were under the aegis of the East India Company, and during their tenure of administration they made frequent efforts to replace the dollar circulation by the Indian rupee. These attempts to introduce rupees were not exactly successful and, although they were made legal tender, the natives continued obstinately to favour the dollars. The East India Company even went so far as to issue special coins subsidiary to the rupee, such as half and quarter rupee pieces, besides putting into circulation copper cent, half-cent, and quarter-cent pieces. They failed in their attempts to force the rupee upon the people; but the copper coins seem to have met with a favourable reception, so much so, in fact, that when the Company tried later on to withdraw them they were met with considerable opposition. In currency matters this sort of thing always leads to muddle, and before very long the Straits Settlements Government found itself at sixes and sevens: the Government itself stuck obstinately to the legal rupee; its accounts were kept in that currency, and all settlements were made on the basis of rupees, annas, and pice. On the other hand, the public paid revenue and other dues in dollars and cents, which the Government for the purposes of account-keeping were obliged to convert into rupees at varying rates. Outside the Government, all commercial accounts and dealings were fixed on the basis of dollars and cents; and this unsatisfactory state of affairs continued down to the transfer of the Straits Settlements from the charge of the Indian to that of the Imperial Government, which came into operation in 1867. An ordinance was then passed repealing the statutes making rupees legal tender, and declaring that with effect from 1st April, 1867, the "dollar issued from Her Majesty's Mint at Hong-Kong, the silver dollar of Spain, Mexico, Peru, and Bolivia, and any other silver dollar to be specified from time to time by the Government in Council, shall be the only legal tender." This ordinance excepted certain subsidiary coins, which were apparently those of silver and

copper supplied from Hong-Kong. The Mint in Hong-Kong, however, closed its doors in 1868, and the Straits Settlements Government then found itself under the obligation to provide its own subsidiary silver and copper coinage, and arrangements, were consequently made with the Royal Mint to supply the coins required.

To meet the expansion of trade, it became necessary, at the end of 1873, to admit the American trade dollar and the Japanese yen to unlimited circulation; and by order of the Governor in Council of 10th January, 1874, this was done. From that time, matters seem to have gone along more or less satisfactorily until 1890, when, after mature consideration, an Order was made on the 21st October repealing all laws for the regulation of legal tender in the Colony. The same Order then made the Mexican dollar of 902·7 millesimal fineness the standard coin; while the American trade dollar, the Japanese yen, and the Hong-Kong dollar and half-dollar (all silver coins), were made unlimited legal tender. There still remained the Straits Settlements' half-dollar and other subsidiary silver coins of 800 millesimal fineness to be dealt with, and as a solution of the problem it was decided to make these legal tender for an amount of two dollars. The other Colonial copper and mixed metal coins were made legal tender for an amount of one dollar. A little later, an Ordinance (No. 2 of 1891) was passed prohibiting the importation and circulation of coins not of legal tender, and under this Order the importation of various copper or bronze coins which had then ceased to be legal tender was also prohibited.

Finally, in accordance with an Order in Council of 2nd February, 1895, the United States' trade dollar, the minting of which had ceased since 1878, became no longer legal tender. In 1898 the Japanese silver yen was also demonetised as the result of the adoption of a gold standard by Japan.

The British trade dollars, it should be added, were introduced in 1895 following on the recommendation of the Currency Committee of 1893, which advised that, owing to the scarcity of Mexican dollars at the time, a British dollar should be issued for circulation in the Straits Settlements and other Eastern colonies.

The Currency Committee of 1893 touched in a tentative way on the subject of a gold standard for the Straits, but did not get very far with its deliberations; and the matter was allowed to drop until 1897, when the question was again raised. In that year the Singapore Chamber of Commerce appointed a sub-committee "to inquire into the local currency with the view of calling attention of the Government to the question of converting the Straits currency to a gold standard." Considerable differences of opinion were, however, found to exist among the British community; and, as the Committee's report was adversely criticised by the Governor and the Resident-General, currency reform was once more pigeon-holed until a more auspicious moment. That time came in June, 1902, when, owing to the continued and serious decline in the gold value of silver (the dollar had fallen in value from 4s. 2d. to 1s. 7d.), the Singapore Chamber of Commerce was induced once more to take the matter up with the Government. The Chamber asked that an investigation be made "into the feasibility and expediency of securing fixity of exchange"; and, to cut a long story short, a committee, known as the Straits Currency Committee, was appointed to consider the question at issue.

We need not go fully into the deliberations; but it will suffice to say that, after examining various proposals, the plan finally recommended for placing the Straits on a gold standard was this—

A special Straits dollar of the same weight and fineness as the British dollar then current in the East to be substituted for the Mexican and British dollars; the latter dollars to be demonetised as soon as a sufficient supply of new

dollars had been accumulated to permit of this being done. It was suggested that the first supply of the new dollars might be obtained by remitting to one of the Indian Mints a portion of the coin reserve of the Singapore Currency Commissioners for melting and conversion into new Straits dollars, and that the process be continued until the whole of the coin reserve was supplanted.

Simultaneously with the arrival of the first supply of the new dollars and their institution as legal tender, the Committee proposed that the import of Mexican and British dollars should be prohibited temporarily, and that the export of the new Straits dollars should also be prohibited. Then, when the currency was so largely composed of the new dollars as to justify the measure, the Mexican and British dollars should be finally demonetised, and the Straits Settlements would then, it was supposed, be in precisely the same position as India was when the change of standard was adopted there.

Assuming that the suggested currency scheme had arrived at this stage, the Commissioners considered that the procedure might be exactly the same as it was in the case of India, namely, after sufficient Straits dollars had been minted to meet the requirements of business in the Colony and adjoining States, the coinage of dollars should cease until the exchange value of the Straits dollar reached the level ultimately decided upon in relation to the sovereign; dollars could then subsequently be issued in exchange for gold at the fixed rate.

The opinion of the Committee was that, when the gold standard was established, it would not be indispensable that any gold coins should be made legal tender in the Colony and in the States. The Government, it said, should be prepared not only to give in exchange for a sovereign such number of dollars as were declared to be equivalent to a sovereign, but should also give sovereigns in exchange for dollars at the same rate as long as gold was available, or, alternatively, give bills on the Crown Agents for the

Colonies in London based on the fixed rate of exchange.<sup>1</sup>

Prompt action was taken on the publication of the Committee's findings; and on 25th June, 1903, it was ordained (Straits Settlements Coinage Order, 1903) that, under the direction of one of the mints in British India, a Straits dollar 900 fine should be coined, and arrangements were made with the Government of India to put the minting of the new dollars in hand forthwith. Under this Order, the Governor was empowered to make the new dollar legal tender in the Colony, and also to declare that Mexican and British dollars were no longer legal tender. Then another Ordinance was required to amend the Currency Note Ordinance of 1899 (this was published on 3rd July, 1903), and to give the Governor power, with the approval of the Secretary of State, to use any part of the coin portion of the note guarantee fund for the purpose of having it re-minted and coined into the legal tender coinage of the Colony.

The first supply of the new dollars reached the Straits Settlements towards the end of September, 1903; and on 3rd October the further import of silver British and Mexican dollars into the Straits was prohibited.<sup>2</sup> Various Proclamations were then issued, the effect of which was that the new dollar was constituted the standard coin of the Colony; it became legal tender from 3rd October, 1903, and its export from the Straits was prohibited.

Having got thus far, the policy of the Government was rather a wavering one for some time; it proceeded along the orthodox lines, mainly following the Indian plan in regard to the contraction of currency, etc.; and it was successful in demonetising the British, Mexican, and Hong-Kong dollars without anything very remarkable happening, but a good many months passed before the Government

<sup>1</sup> Cf. Appendix F. to Report of the Committee on the Stability of International Exchange (Washington Govt.), pp. 278-90.

<sup>2</sup> Cf. *The Statist*, London, 3rd October, 1903.



could bring itself to fix a definite exchange value for its new dollar. The Currency Committee had, with the exception of making it one of the "essential features of the scheme that the dollar should, when fixed, be approximately the current rate of exchange at the time of fixing,"<sup>1</sup> remained discreetly quiet on the subject. The point which the authorities had to bear in mind was that care should be taken to divorce the value of the dollar from its bullion content; and during the somewhat protracted period in which they were watching the price of silver and endeavouring to make up their minds as to the correct exchange value to be fixed consistently with safety, there was a good deal of controversy, not to say speculation, on the likely trend of events. After much agitation, however, it was ultimately decided to fix the gold value of the dollar at 2s. 4d.—this was in January, 1906, at which price it has since been maintained. Subsequently, owing to the rise in the value of silver, it became necessary to reduce the weight of the Straits dollar from 416 gr. to 312 gr., but the fineness—900—was retained.

Under the Straits Settlements Order in Council of 22nd October, 1906, the sovereign was made legal tender within the Colony for the payment of any amount at the rate of seven sovereigns for sixty Straits dollars (i.e. 2s. 4d. per dollar); and it was provided by the same Order in Council that the dollar should remain the standard coin of the Colony. The Order reducing the weight of the silver dollar and also of the 50-cent pieces, in order to preserve the ratio to gold, was issued on 11th February, 1907.

The Straits Settlements silver dollar is also, it should be borne in mind, the standard coin for Labuan, the Federated and Protected Malay States, British North Borneo, and Sarawak.

Prior to 1889 there had been no Government issue of paper currency in the Straits Settlements: the notes in circulation were those of two Eastern banks—the

<sup>1</sup> *Currency Reform in the Straits Settlements*, p. 27 (J. O. Anthonisz).

Hong-Kong and Shanghai Banking Corporation ; and the Chartered Bank of India, Australia, and China. But when once the Government had embarked on currency reform, it was decided to inaugurate a system of currency notes; and the necessary Ordinance, No. 4 of 1889, giving official sanction to the issue, was promptly passed and given effect to. It was provided that notes were to be of the following denominations: 1, 5, 10, 20, 50, or 100 dollars, and for any multiple of 100 dollars. The one-dollar notes were only legal tender up to ten dollars; but the remainder of the denominations were legal tender in the Straits for the amount expressed therein to any amount, except by the Commissioners of Currency at their offices, or a tender in redemption of its notes by any bank lawfully authorised to issue notes.

In the first instance, no one-dollar notes were put into circulation: they were not, in fact, actually issued until 1905.

The reserve against the Government note issue is held partly in coin, partly in securities, the minimum legal coin reserve at first being two-thirds of the whole, and the remainder in securities; a reduction in the coin reserve to one-half was subsequently sanctioned.

On 31st December, 1921, Government Currency Notes to the value of \$84,596,806 were in circulation in the Straits Settlements and the Federated Malay States.

The Government, by fixing the gold value of the dollar in exchange at 2s. 4d., had committed itself to the maintenance of exchange at that point; and, to meet the desired end, various Ordinances were passed in 1904-5 providing for the receipt of gold by the Government in Singapore and by the Crown Agents for the Colonies in London in exchange for notes issued in Singapore. It was easy enough to fix the rate of exchange for the notes to be issued against the gold in Singapore, but difficulties were encountered when it came to settle the rate at which notes were to be issued in Singapore against the gold deposited in London. The Ordinances of 1904-5 did not

provide for this contingency. Another Ordinance was, therefore, passed (No. 1 of 1906), which fixed the London rate at the gold import point based on the fixed rate of 2s. 4d. plus the cost of remitting gold from London to Singapore. According to the terms of this Ordinance, the Currency Commissioners at Singapore were empowered to issue notes in exchange for gold received there, at a rate of exchange to be notified, and were also authorised to accept tenders for the issue of notes in Singapore against payment by telegraphic transfer to the Crown Agents for the Colonies in London. Accordingly, on the 29th Jan., 1906, a Notification was issued signifying the willingness of the Government to issue the notes in exchange for gold at the rate of 2s. 4d. to the dollar; and, finally, on the 14th September, 1906, effect was given to the other provisions of the Ordinance whereby the Commissioners were empowered to issue gold in exchange for notes at the fixed rate, and to accept tenders for the purchase of telegraphic transfers payable in London by the Crown Agents for the Colonies. The object of this Ordinance was to fix a limit above which the exchange value of the dollar could not rise and a limit below which it could not fall; in other words, the contraction of the currency was made possible by the withdrawal of notes (or dollars) from circulation in Singapore—the persons who purchase the telegraphic transfers on London pay the money *in* Singapore; and, similarly, currency is released into circulation by the Government's paying out notes in Singapore against gold deposited with the Crown Agents in London.

The system is thus similar in its essential points to that in operation in India, since the telegraphic transfers payable by the Crown Agents for the Colonies in London, which are sold in Singapore at gold export point, have the effect of fixing the downward limit of the dollar; while the upper limit is fixed by the Government's offer to issue notes in exchange for gold tendered in Singapore.

It has always been a matter of some difficulty for enquirers to understand these upward and downward limits of exchange with Singapore, simply because the import and export points are not at points equidistant from the par of exchange (2s. 4d.). But the explanation is that the import point (2s. 4 $\frac{3}{16}$ d.) represents the cost of importing gold into Singapore from Australia, whence the gold which finds its way into the Straits usually emanates; while the export point (2s. 3 $\frac{1}{16}$ d.) is actually the cost of exporting gold from Singapore to London.<sup>1</sup>

The question of reserves in connection with the Straits paper currency has been in the past almost as fruitful a cause for discussion as have the Indian currency reserves; and all the old arguments which have been used concerning the location of India's reserves, proportion of investments, depreciation, etc., have been reiterated in the case of Singapore. There is no need for us to go over the whole of the ground covered by the critics: it is, as it happens, difficult to say whether the present arrangements are final; and as limits of space preclude our devoting many more pages to the subject of Singapore's scheme, it will perhaps suffice to indicate the main divisions of the reserve.

At the outset, the Currency Commissioners in Singapore had several reserves to maintain with the avowed object of securing the convertibility of their notes: there was the Note Guarantee Fund, another fund to provide for the depreciation in investments, etc.; and also a Gold Standard Reserve. In course of time it became apparent that the method of working and maintaining these funds or reserves was difficult and cumbersome in practice, and after various experiments it was decided to amalgamate them under one reserve against the Paper Currency; and legislation being passed to give effect to the changes, the constitution

<sup>1</sup> A full explanation concerning the reasons which lead to the fixing of these points is given by the late Treasurer of the Straits Settlements (J. O. Anthonisz), in Chapter VI of *Currency Reform in the Straits*.

and location of the reserve was, in 1913, fixed on the following basis—

I. A minimum coin reserve of one-half of the note circulation, apportioned (a) a minimum coin reserve of one-third of the note circulation to be held in the Colony, consisting of (b) a minimum silver reserve of one-fifth of the note circulation; and (c) the balance—a maximum of two-fifteenths of the notes in circulation—to be held in gold in the Colony; (d) a maximum gold reserve of one-sixth of the note circulation to be held in London by the Crown Agents for the Colonies.

II. A maximum investment reserve of one-half of the note circulation.<sup>1</sup>

The coin reserve held by the Commissioners at the end of 1918 against the note circulation amounted to \$52,345,075·63 consisting of £328,111 in gold, held locally, and \$11,703,765·02 in silver, partly in the Colony and partly held by the Mint Master, Bombay for coinage purposes, and £4,413,375 4s. 9d. in gold in London.

The Great War has brought in its train numerous currency troubles for all countries, and the Straits Settlements have not been free from their share of difficulties. There was the same absorption of silver subsidiary coinage as we have seen in India's case; consequently, on 7th September, 1917, it became necessary to issue by Proclamation an Ordinance (No. 18 of 1917) to amend the Currency Note Ordinance of 1899. The effect of the Currency Note (Amendment) Ordinance, 1917, was to give power to the Governor of the Straits Settlements to defer for a period, to be stated by Proclamation, the payment by the Commissioners in current coin of the amount expressed in any currency note issued by them, which might be presented by holders. The required Proclamation was, therefore, published in the *Straits Settlements' Government Gazette* of 7th September, 1917, and payment

<sup>1</sup> Cf. *Currency Reform in the Straits*—"Reserves," p. 104 *et seq.* (J. O. Anthonisz).

of the notes in current coin deferred for a period of three months from that date.

In effect this means that the Straits note issue is temporarily inconvertible, as the period for deferring payment of the notes in current coin was subsequently renewed for a further period of three months from 7th December, 1917, and up to the time of writing the payment of the notes in gold has not been resumed.

So much for the Paper Currency.

Early in 1918 there were also difficulties connected with the subsidiary coinage, principally due to the high and ever-rising price of silver, and its increasing scarcity owing to the world demand for the metal. In the Straits, as elsewhere, there was a shortage of silver coins; and to meet this void in the currency, it was decided to issue new subsidiary coins of the same denominations and weight, but only 400 fine as against 600 fine quality of the pre-war subsidiary silver coins. The usual Proclamation was issued in Singapore on 26th April, 1918, and a commencement made by circulating new 10-cent pieces: 5, 10, and 20-cent pieces are provided for, viz.—

#### SILVER.

						<i>Standard weight.</i>
5-cent piece,	400 fine,	20.95 grains	or	1,357	grammes.	
10   "       "	400   "	41.90   "		2,715	"	
20   "       "	400   "	83.81   "		5,430	"	

Of this new subsidiary coinage \$900,000 was received from the Bombay mint during 1919, and put into circulation immediately. The supply of small silver, however, was totally insufficient, and it became necessary to increase the issue of notes in denomination of less than \$1. \$623,994.40 worth of 10-cent notes, and \$215,000 worth of 25-cent notes were in circulation at the end of 1918.

In the meantime it became evident that in view of the continued high price of silver it would be necessary to reduce the fineness of the silver contained in the Straits dollar. Accordingly, on 18th May, 1918, an Order in

Council was signed reducing the fineness of the silver in the dollar from 900 to 600. The alteration was subsequently announced in the *Government Gazette* of 23rd August, 1918, but owing to the enormous strain put upon the Bombay mint in dealing with Indian coinage, it was not found possible to mint any of the new dollars, 600 fine, before other changes became necessary. Accordingly, on 29th October, 1919, another Order in Council was signed, but was not published in the *Government Gazette* until 9th January, 1920. The new Order had for effect the annulment of the previous Order of 18th May, 1918; it was considered never to have had effect. In terms of the new Order it was announced that 550 would be substituted for 900 fine in the schedules of the Straits Settlements Coinage Order of 1907 as the millesimal fineness, and 5/1000ths substituted for 3/1000ths as the remedy allowance in millesimal fineness of the Straits dollar and, 50-cent pieces coined after such date as shall be "fixed by the Government of the Straits Settlements by Proclamation." The position, as these pages leave for press, is that no further announcement has been made, and in the meantime no silver dollars are in circulation in the Straits.

## CHAPTER XII

### THE FOREIGN TRADE OF THE STRAITS SETTLEMENTS AND THE FINANCIAL OPERATIONS CONNECTED THEREWITH— VAGARIES OF THE EXCHANGE QUOTATIONS

THE commerce of the Straits Settlements is singularly free from restrictions, and the foreign trade benefits accordingly. With the exception of excise duties levied on intoxicating liquors and petroleum imported for local consumption, there are no duties on imports or exports: to all intents and purposes, therefore, the Straits Settlements conform strictly to Free Trade principles. The trade of the country is generally described as a transit one only, but it is, perhaps, more correctly classified as: passing, transit, and actual trade. Passing trade covers goods carried by vessels which merely pass through Singapore *en route* for China and other places in the Far East; transit trade comprises merchandise, etc., transhipped at Singapore; while the actual trade of the Colony includes all goods imported for purchase and sale there.

Tin, gums (including rubber), copra, and spices are the principal exports. The Straits' exports of tin to all countries in 1921 were valued at £7,349,351, of which the United Kingdom took £1,746,239 worth. Rubber taken by Great Britain in 1921 was valued at £2,438,000. During the year 1915, the value of the rubber imported from the Straits Settlements, including Labuan, amounted to £7,384,830, the decline doubtless being due to the restriction that has since been placed upon output owing to the severe depreciation in the price of the product. Spices include pepper, the greater part of which is shipped to countries other than England; but the United Kingdom imported £373,000 worth of pepper in 1921.

The principal imports are tin, ore, rice, and other grains, cotton piece goods, yarns, etc., and provisions of all kinds.



The cotton piece goods and yarns emanate chiefly from Great Britain, which exported to the Straits, in 1921, £2,161,500 out of a total of £3,252,000. The other only imports of importance from the United Kingdom in 1921 were: Machinery, £932,000; iron and steel manufactures, £1,772,536; tobacco, £599,000; and motor-cars, £103,000.

The Colony is well supplied with banks, no less than nine of the large European banking institutions having branches or agencies there, and the financing of the imports and exports is usually the subject of keen competition.

The principal imports and exports in 1921, exclusive of<sup>1</sup> inter-settlement trade, were—

#### IMPORTS INTO THE STRAITS SETTLEMENTS

Tin Ore . . . . .	£7,349,000
Rice and other grains . . . . .	8,859,000
Cotton Piece Goods Yarns, etc. . . . .	3,252,000
Provisions . . . . .	380,000
Sugar . . . . .	2,114,000
Tobacco, Cigars and Cigarettes . . . . .	3,455,000
Fish, Dried and Salted . . . . .	1,996,000
Coal . . . . .	1,962,000
Live Animals . . . . .	677,000
Vegetables and Fruit . . . . .	799,000
Hardware and Ironware, including cooking utensils . . . . .	1,107,000

#### EXPORTS FROM THE STRAITS SETTLEMENTS

Tin . . . . .	£6,819,000
Gums, including Rubber . . . . .	11,954,000
Spices . . . . .	1,868,000
Copra . . . . .	3,222,284
Hides Raw . . . . .	35,400
Sago . . . . .	430,000
Rattans . . . . .	724,000
Gambier . . . . .	166,000
Tapioca . . . . .	540,000
Pineapples—preserved . . . . .	725,000
Phosphates of Lime . . . . .	155,000

The usance of bills drawn varies from demand to four months' sight: three months' paper is, perhaps, the most common, and a few six months' bills are also seen; but the banks do not like this long-dated paper, and do all they can to discourage the drawing of it, for the reason that

<sup>1</sup> Cf. *Statesman's Year-book*, 1923, p. 178.

it upsets one of the most important rules of exchange banking—rapidity of turnover. Six months' bills are not always easy to discount on the London market, except at a sacrifice in the rate, and for the banks to purchase many of them means a nasty lock-up of funds. In any case, such paper is negotiated only for firms of quite high standing.

Bills are drawn and negotiated under the usual credits, or they may be sent simply for collection and remittance of proceeds in due course. Here we may mention a curious difficulty which is constantly cropping up in regard to exchange banking: it concerns the meaning of clean and documentary bills. Strictly speaking, any bill which goes through the bank with documents attached is a documentary bill, but bankers and merchants have read another meaning into the phrase. Under the heading of "documentary paper," they include all those bills bearing the clause "documents on payment"—D/P bills as they are commonly called. By "clean" bills most people understand bills clean from their origin, that is, from the first moment they are drawn and passed through the bank, which, in a way, is right. But there is another class of bill which comes under this category: it is a bill which bears the clause "documents on acceptance." Such paper obviously is rarely drawn on any but firms in first-class credit; consequently, when the banker presents the bills to the drawee and the latter accepts it, the shipping documents are detached and handed over, and from that moment the bill ranks as a clean bill for discount purposes. When drawers authorise exchange bankers to hand over documents on acceptance, they are said to be giving their consignee (the drawee) clean credit. It will be well for the reader to bear these facts in mind, as the matter frequently crops up in India and the East.

Bills drawn in the Colony "on demand" are chargeable with a stamp duty of 4 cents; those drawn at so many days' or months' sight or date are liable to a duty of half

per mille. For example, a bill for £100 drawn on London payable at three months after sight, in accordance with the stamp laws of the Colony, would be stamped in, say, Singapore with a stamp equal to 1s.; and under the British Stamp Act of 1891, it must be again stamped with a 1s. stamp before it can be presented for payment, endorsed, transferred, or in any way negotiated in the United Kingdom. Where bills are drawn in duplicate or triplicate, there is no duty chargeable in the Straits on the seconds or thirds of exchange, unless, of course, these "copies" of the original bill are dealt with or negotiated apart from the first of exchange.

It has often been said that the brokers or bankers who first hit upon the idea of publishing lists of exchange quotations must have been actuated by a fiendish desire to draw up a conglomeration of rates which no one except those up to the tricks of the trade would be able to understand; and when first glancing at Singapore's product, the reader will be inclined to agree with the diatribes which have been cast at the broker-banker family. The following were the opening bank quotations in Singapore on the 7th June, 1916—

	BANK. on demand.	BANK. 4 m/s.	PRIVATE.		
			30 d/s.	3 m/s.	6 m/s.
London . . .	2/4½	2/4-21/32	2/4-17/32	2/4½	2/5-7/32
Paris . . .	327				
Batavia . . .	135½				
Bombay & Calcutta	174½				
Rangoon . . .	174½				
Manila . . .	111				
Shanghai . . .	79½				
Hong-Kong . . .	10% discount				

The rates on London present no difficulty: under the heading of "Bank" they represent the prices at which a banker will sell sterling bills payable on demand and four months after sight in London respectively: it will be noticed that where the buyer (or the person to whom he remits the bill) is prepared to wait for his money until four months after the bill has been "sighted" and

accepted in London by the person upon whom it is drawn, more shillings and pence per Straits dollar are given in exchange.

The "Private" paper represents first-class mercantile bills, the amount per dollar being more in each case in proportion to the time the buyer is out of his money.

Paris, 327, means that the banker is ready to sell a bill for 327 francs payable in Paris on demand in exchange for 100 Straits dollars paid in Singapore, and so on with the other rates, viz.—

Batavia	.	.	135½	=	Guilders payable in Batavia for \$100
Bombay & Calcutta	174½	=	Rupees for \$100		
Rangoon	.	.	174½	=	" " "
Manila	.	.	111	=	Pesos " "
Shanghai	.	.	79½	=	Taels " "
Hong-Kong 10% discount	= \$1 Hong-Kong less 10% discount for 1 Straits' dollar.				

It is this last quotation which overpowers most students, but as it is one of the idiosyncrasies of the exchange dealers to give the rate in this way and not per \$100, we must make the best of it and endeavour to find out for ourselves what the hidden meaning of it is. So far as the writer is aware, most Eastern operators reason it out by Chain Rule on the basis of the telegraphic transfer quotations: we ought, by the way, to have said that telegraphic transfers—Singapore on London—could be purchased at about 2s. 4½d. on the day the above-mentioned rates were current. At the same date, Hong-Kong was quoting T.T. at 2s. 1¾d., and with these facts before us the sum can be easily worked out.

What we have to find out is—

How many Straits dollars	=	100 Hong-Kong dollars
If 1 Hong-Kong dollar	=	2s. 1¾d. (the T.T. rate)
and 2s. 4½d. (Straits T.T. quotation)	=	1 Singapore dollar

From this chain we get—

$$\frac{100 \times 2s. 1\frac{3}{4}d.}{2s. 4\frac{1}{2}d.} = \frac{100}{1} \times \frac{203}{8} \times \frac{8}{226} = 89.823$$

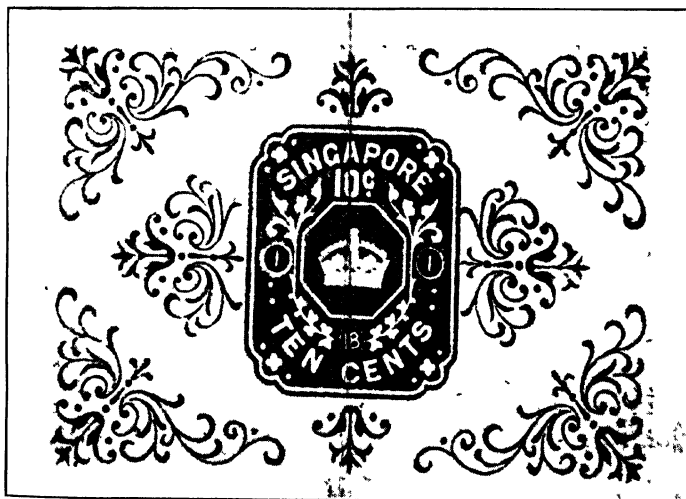
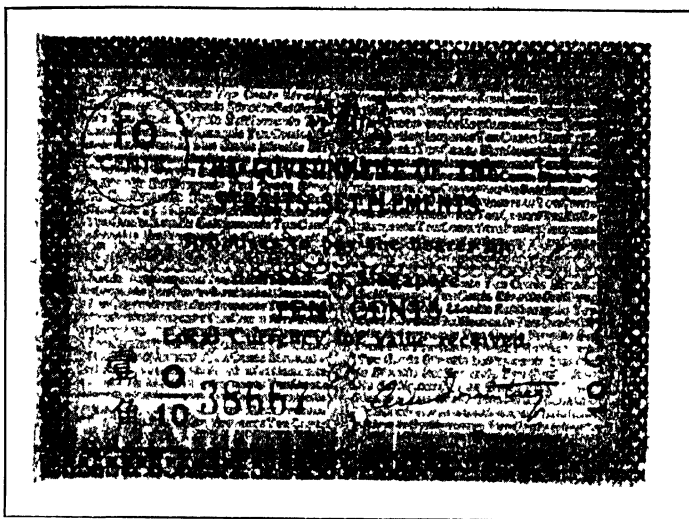
which shows that 100 Hong-Kong dollars on the day in question were worth approximately 89.823 Straits dollars:

or, to put it more plainly still, 89·823 Straits dollars would purchase the right to receive on demand, in Hong-Kong, \$100 local currency; and if account be taken of the brokerage, which varies from  $\frac{1}{8}$  to  $\frac{1}{16}$  per cent., we see that the price of the Hong-Kong dollar in Singapore is near enough 10 per cent. discount. This discount varies with the price of silver: the lower the gold value of silver on the London market, the lower will be the exchange for telegraphic transfers, Hong-Kong on London; and, *pari passu*, the higher will be the discount at which the Hong-Kong dollar is quoted in Singapore. The conditions are, however, reversed when the price of silver rises: then the telegraphic transfer rate of exchange for Hong-Kong dollars on London will rise in proportion to the appreciation in the gold value of bar silver on the London market, and the discount on Hong-Kong dollars in Singapore will fall. This is only another example of the many and far-reaching evils arising out of adherence to the silver standard.

In regard to these exchange quotations, it may seem a little peculiar to quote for usances beyond three months, as European goods are sold nominally for cash or on three months' credit; but, as may be imagined, this term is constantly extended: and the bankers themselves not infrequently have to carry consignments for a more or less extended period. Native produce is always sold for cash.

We have seen what form money takes in the Straits Settlements, but it will be useful for purposes of reference to recapitulate it—

GOLD.	The British sovereign	} Unlimited legal tender.
SILVER.	\$1 piece (value 2s. 4d.)	
	half-dollar (or 50cents piece)	} Legal tender up to \$2.
	20-cents piece	
	10 " "	
	5 " "	} Legal tender up to \$1
COPPER.	1-cent piece	
	$\frac{1}{2}$ " "	
	$\frac{1}{4}$ " "	
PAPER.	\$1, 5, 10, 20, 100 (and multiples of 100\$).	



STRAITS SETTLEMENTS NOTES ISSUED IN 1920

Ten cents = @  $2\frac{1}{4}$  p \$ =  $2\frac{1}{2}$ d.



10-cent and 25-cent notes were issued during 1918-20 as a temporary measure, but they are now being withdrawn from circulation and cancelled as fast as circumstances permit.

These notes were remarkable for singularly bad workmanship and design.<sup>1</sup> They proved extremely troublesome in circulation; the number being printed in the bottom left-hand corner, if the notes became mutilated, as they very frequently did, it was extremely difficult to identify the pieces from the halves presented. We reproduce two of the notes. They are now very scarce.

#### WEIGHTS AND MEASURES

1 Chinese Catty	= 16 Tahil	= 1-1/3 lb. avoirdupois.
1 Picul	= 100 Catties	= 133-1/3 " "
1 Cuyan	= 40 Piculs	= 5333 1/4 " "
1 Corge	= 20 pieces	(used in the piece goods trade).

The Malay Catty (or kati), sometimes used in Penang, is said to be equal to the weight of "24 Spanish dollars, or 9,984 grains. This gives 142.628 lbs. as the weight of the picul, and 5,705.143 lbs. as the weight of the Koyan."<sup>1</sup>

Piece goods and similar articles are measured by the English yard, which, with its divisions and multiples, is the measure of length in use in the Straits Settlements.

Land is also principally measured by the English acre.

The measures of capacity are—

1 Gantang	= 1 gallon
1 Chupak	= 1 quart

<sup>1</sup> *Statesman's Year Book*, 1916.



## CHAPTER XIII

### THE EMPIRE OF JAPAN

ITS PRINCIPAL ECONOMIC FEATURES—CURRENCY: PAST  
AND PRESENT—THE BANKING SYSTEM

THE Empire of Japan, which the Japanese aver was founded by the first emperor, Jimmu Tenno, 660 B.C., comprises a large number of islands situated off the eastern coast of Asia, and stretching in an oblique line from north-east to south-west.

This long chain of islands extends over 2,900 miles, and forms a curve of three distinct arcs: the Lukyus, Japan Proper, and Chishima (the Kuriles). The three arcs, in combination with the peninsulas of Korea and Kamtchatka, and the Island of Saghalien, enclose respectively the Eastern Sea, the Sea of Japan, and the Okhotsk Sea.

The area of the whole of the Japanese Empire is approximately 257,672 square miles, and the population 64,789,000: the density of the population is, therefore, equal to 251 per square mile.

The amount of Japan's National Debt at the end of July, 1923, was yen 3,039,726,000, approximately, £303,972,600, or about £4 12s. per head of population.

A large amount of the national revenue is obtainable from taxation, the yield from taxes representing about 65 per cent. of the net ordinary revenue. Taxes fall under several heads, those on land and liquor being the most important; but, as will be seen from the table for 1922-28, the total amount derived from the Customs duties, income tax, and the business tax is no mean figure.

TABLE FOR 1922-23

	<i>Yen.</i>
Land Tax . . . . .	74,144,144
Income Tax . . . . .	203,578,537
Business Tax . . . . .	66,838,205
Succession Tax . . . . .	7,158,665
Travelling Tax . . . . .	9,276,214
Mining Tax . . . . .	8,342,899
Tax on the issue of Bank Notes . . . . .	113,782
Tax on Liquors . . . . .	188,838,873
Tax on Soy . . . . .	5,638,672
Sugar Excise . . . . .	43,087,992
Consumption Tax on Textile Fabrics . . . . .	42,614,144
" " Kerosene Oil . . . . .	883,915
Tax on Bourses . . . . .	10,876,358
Customs Duties . . . . .	71,744,424
Tonnage Dues . . . . .	852,074
Other Taxes . . . . .	308,818
	734,297,716

Including the land tax, the incidence of the taxation per head of population is approximately £1 15s., a fairly heavy burden, but one which the Japanese are well able to bear. The incidence of taxation has doubled since the great European War, in which Japan was one of Great Britain's allies.

It would have been interesting to have examined how far the Japanese taxes conform to Adam Smith's four famous maxims on taxation;<sup>1</sup> but, as that is getting rather beyond the sphere covered by this book, we will leave the reader to pursue the enquiry at his leisure while we keep to the subject in hand—currency.

The present currency system of Japan is based on the Coinage Law of 1897, under which a gold mono-metallic standard was established; but, needless to say, the authorities only arrived at that stage after much trouble and tribulation.

The history of their currency is conveniently divided into two periods: the period before the Restoration, and the period after the Restoration.

Prior to the Restoration, the monetary system of Japan was in a wholly unsatisfactory state: some sixty odd types

<sup>1</sup> Cf. Adam Smith, *Wealth of Nations*—Book V, Chap. II.

of coin of all sorts, sizes, and shapes formed the circulating medium, and their quality was, if anything, more varied than the metal of which they were composed. Gold and silver in flat pieces and granules, together with a heterogeneous mass of copper and iron coins, passed current; and, as if not satisfied with this bewildering supply of currency, a large number of Chinese and other foreign coins were allowed to circulate side by side with the authorised media of exchange.

The chaos arising out of this quaint admixture of coins may better be imagined than described, and it is not too much to state that the hopelessly confused state of the currency was at least a contributory cause to the grave internal troubles from which Japan subsequently suffered. There was not, as has been so often stated, any rigid adherence to a silver standard; and, although the country, in common with other Eastern nations, always had a partiality for silver, her currency troubles were much more due to mismanagement than to the effects of the depreciation in the gold value of silver. In the Toyotomi Era (about 1585), it is recorded that both gold and silver coins were minted on a comparatively large scale; but, in the absence of proper laws governing the issue of the currency, matters seem to have drifted along in a hopelessly slipshod manner until the establishment, in 1600, of the Tokugawa Shogunate, a dynasty of Shoguns which governed Japan until 1867. One of the first steps taken under the Tokugawa Shogunate régime was the reorganisation of the internal currency of the country, and undoubtedly the most important thing accomplished was the minting and issue of a new gold coin.

The issue of this new currency, called "Keicho coin," took place in May, 1601, the sixth year of the Keicho era; and having regard to the excellence both in quality and weight of these new gold coins, the effort of the Tokugawa Shogunate may be regarded as the first honest attempt on the part of any administration in Japan to unify her currency. It is no exaggeration to say, in

fact, that, by the issue of the Keicho gold coins, the country was for the first time in its history put in possession of something approaching a universal circulating medium.

It is a tribute to these first currency reformers to find that some semblance of the system they instituted in 1601 was maintained for upwards of 260 years. A subsequent issue of subsidiary copper coins, however, proved to be their undoing, or, as perhaps we ought to state, had a neutralising effect on the good work of the Tokugawa Shogunate: for, by the operation of Gresham's Law, which, baldly stated, shows that bad money invariably drives good money from circulation, the issue of the copper coins in Japan drove the gold and silver coins out of the country. A scarcity of specie was at once apparent, and the effect on trade was most serious.

It is curious to find this same Government almost intent upon wrecking the former wise measures by resorting to the suicidal policy of issuing inferior coinage, yet that is what it did in the years 1695 and 1706; and the following table is a damning record of its action—

KIND.	WEIGHT.	GOLD.	SILVER.	MISCELLANEOUS	VALUE (converted into Yen under the existing system).
	<i>Momme</i> <sup>1</sup>	<i>Parts.</i>	<i>Parts.</i>	<i>Parts.</i>	<i>Yen.</i>
The Keicho coin (1601)	4.76	856.9	142.5	0.6	20.1284
The Genroku coin (1695)	4.76	564.1	431.9	4.0	13.7314
The Hoei coin (1706)	2.50	834.0	165.5	0.5	10.3130

Strange as it may appear in the light of present-day experience, this minting of inferior coinage was the device to which the Government invariably resorted for the relief of financial stringency, and it was not alone in its action.

The Tokugawa Government had developed a feudal

<sup>1</sup> The momme = 3.75 grammes.

system dividing the Empire into 300 independent States, each under the dominion of a feudal lord. For the provision of currency, and, incidentally, with a view to making large illicit profits, these feudal lords of Japan abrogated to themselves similar powers to those possessed by the supreme Government, and issued for circulation within their own provinces great quantities of secretly coined money of inferior quality. They went even further: the printing press was brought into action, and very soon each of these worthy lords was found issuing inconvertible paper money of his own manufacture. It was an impossible state of affairs and one which could not long continue, so in the second year of the Shotoku era (1712), new coinage regulations were issued for the express object of reforming the monetary system. But it was plain that the authorities had learnt nothing from their previous experiences, for all they did was to travel over the same road. About the year 1714 they commenced to circulate coins of superior quality, and this practice was continued for some little time; before twenty years had elapsed, however, they seem to have tired of the experiment, and once more had resort to the issue of coins inferior both in weight and quality. What followed was merely a repetition of the previous state of affairs: the good full-weight coins disappeared from circulation, were melted or exported, and the inferior coins and paper money were left to circulate at heavily depreciated values. The pity of it was that the Japanese Government of the day never seems to have realised the fact that money, like any other commodity, declines in value as it increases in quantity; and although it was everywhere apparent that the increased quantities of currency poured out were having a disastrous effect on the country, yet during the Bunsei, Tempō, and Ansei eras the Government continually tried to meet its increasing national expenditure by the issue of poorer and still poorer quality coins. But, notwithstanding the utter disregard of the most elemental constituents

of a good currency, it was not until the year 1854 that the system established in the Keicho era finally broke down.

The Government did make a half-hearted attempt to mend matters by instituting arrangements for the supply of exchange at the open ports, and it also permitted the free circulation of foreign coins on the home markets; but these facilities did not stop the outflow of the national gold currency, which was exported almost as fast as it was coined. The silver currency alone remained in the country, and the Government, by endeavouring to apply its old panacea for currency ills—it again issued inferior quality gold pieces—simply made the last state of the Japanese monetary standard worse than the first. The confidence of the people became considerably shaken, and their distrust of the currency was not lessened by the knowledge that counterfeit coins were found to be in circulation. What to do the Government knew not, and it was perhaps just as well that the outbreak of the War of the Restoration caused the exit of the Tokugawa Shogunate, and so saved the country from further costly currency experiments.

The advent of civil war seems to have cleared the film from the eyes of the Imperial Government and led it to realise the urgency of reform of the monetary system: accordingly, in 1868, the unification of the currency was seriously undertaken. Towards the end of 1869 the Government had arrived at a working solution of its difficulties, and forthwith announced its intention of adopting the silver standard with gold in supplemental circulation. It had not, however, gone very far with the new system when it again resolved, on the recommendation of one, Ito Hirobumi, to institute a gold standard; and with this object in view, new coinage regulations were once more issued on the 10th May, 1871. A one-yen gold coin, weighing 23·15 gr., was fixed on as the standard unit; and concurrently with its issue, other

gold pieces of the value of 2, 10, and 20 yen were put in circulation, and all were legal tender to any amount. The subsidiary coinage consisted of silver and copper, each of four denominations, of less than one yen, and of limited legal tender only. Then the Imperial Government, having its eye on the popularity of the Mexican silver dollar in the East, hit upon the expedient of minting a silver coin of the value of one yen, equal in weight and quality to the Mexican dollar. These new yen coins were issued for the special convenience of the merchants engaged in foreign trade, and were legal tender within the limits of the Treaty Ports only. Their value relative to gold was fixed at the ratio of 100 silver yen to 101 gold yen, or a ratio of 1 of gold to 16·014 of silver.

The gold value of silver, however, fell from 59½d. per ounce in 1873 to 56¾d.<sup>1</sup> in 1875; and by July, 1876, when the price of silver on the London market averaged 49d. per standard ounce, the relative value of the yen was one of gold to twenty of silver.

The action of the Government was a step in the right direction; but in the absence of any embargo on the export of gold, the gold yen left the country steadily and, owing to the demand for the coin, the silver Mexican dollar itself stood at a high premium. An endeavour to stem the tide had been made in February, 1875, when the Government one-yen silver coins, 4 gr. heavier than the old ones (that is, 420 gr. instead of 416 gr.), were issued, and at the same time the yen in silver was declared to be equal in value to one yen in gold. But these measures were no use, and, as we have said, gold continued to be exported from Japan.

In May, 1878, the Government, realising the conditions, took about the best step possible in the circumstances, and not only made the silver trade yen legal tender throughout the country, but permitted it to circulate side by side with the gold currency to any amount. Finally,

<sup>1</sup> Average silver prices for the year.

in November of the same year it reduced the coin to its former weight of 416 gr.

Briefly stated, the effect of the various alterations and adjustments was to change the currency standard of Japan from mono-metallism to a gold and silver bimetalism minus the gold; for in actual transactions the silver yen, equal in value to the Mexican dollar, was used almost exclusively.

There had always been trouble in Japan with the paper currency, principally owing to excessive issues. Both convertible and inconvertible notes were issued from time to time: first, under the aegis of the Government; and, later, in 1872, the National banks also were given permission to issue notes convertible into specie. The speed at which the bank notes were converted, however, soon led to an alteration in the regulations and, instead of being exchangeable for specie, the bank notes were made convertible into Government inconvertible Treasury Notes—a mode of procedure which only too quickly led, as might have been foreseen, to a rapid increase of Government inconvertible paper. The amount of notes in circulation was again increased as the result of the demand for currency following on the outbreak of the South-Western Civil War in 1877, and the issue of bank notes was also allowed to reach a dangerously high level.

The evil effects of this haphazard policy and lack of control of the paper currency very soon made themselves felt; and by April, 1881, the inconvertible notes had so heavily depreciated that it became incumbent upon the Government to take immediate steps to put its currency house in order. The task was undertaken with a zest never before witnessed in Japan; and not only did the financial administration proceed systematically to redeem the Government's paper currency, but it also withdrew the note-issuing privileges of the National banks. In addition to this, the formation of the Bank of Japan was successfully carried out in 1882, and steps were at once



taken to accumulate a specie reserve, on the basis of which this Bank was in due course permitted to put into circulation a limited amount of Government inconvertible notes. This was done in virtue of powers provided for in the inconvertible Bank Notes Regulations, promulgated in May, 1884. The cumulative efforts of the Government resulted in a great reduction in the notes in circulation, and the effective control which it was now possible to exercise over the note issue brought the value of the existing notes up to par, and the outflow of gold from the country practically ceased. In fact, by June, 1885, the Government reserve of specie held in the Bank of Japan against the notes stood at such a satisfactory figure, that it was deemed opportune and advisable to issue a notification that specie payments would be resumed as from January, 1886; and, as the Bank of Japan itself says, very satisfactory results followed. On 9th December, 1899, the Government was able to prohibit entirely the circulation of bank notes; and by 31st December of the same year, the circulation of Government paper money was also prohibited.

Meanwhile, many other nations, realising the drawbacks of the silver standard, had one by one signified their conversion to the gold standard and had given effect to their changed views; consequently, silver which had fluctuated widely commenced to fall rapidly; and, as the result of the depreciation, the silver-using countries of the East, Japan among their number, suffered severely.

Lest it be not clear why Japan should have suffered economic loss from the depreciation of silver, we hasten to point out that while, in theory, she ranked as an adherent to bimetallism, yet, in practice, her system of currency had all the essentials of a silver standard; and as her gold always promptly disappeared from circulation, the country was left with all the disadvantages of a silver currency and none of the benefits—real or imaginary—of a bimetallic monetary system. In 1892, the reasons

for the depreciation in their currency were made clear to the Government: a Commission was appointed to consider reforms; and, after a very patient and thorough investigation which lasted for about two years, the Currency Commission gave as its decided opinion that the salvation of Japan lay in the prompt adoption of an out-and-out gold standard.

The funds necessary for the effectual carrying out of the monetary reforms recommended, fortunately were at hand in the shape of the war indemnity which Japan had exacted from China, and after much care and forethought it was decided to give effect to the recommendations of the committee. This was in 1897; a new Coinage Act embracing the reforms was presented to the Japanese Diet in March of that year, and, with a few minor alterations and improvements, was passed and became law on 1st October, 1897.

There is no need to give the details of the new law, but it may be of interest to summarise its principal points, which are as follows—

1. The coinage unit is 2 fun, which contains 0.75 grammes of pure gold, that is, one-half of the former gold unit. This is known as the one-yen piece.

2. The standard gold coins are of three denominations, viz., 5, 10, and 20 yen. Gold coins previously issued pass for double their nominal value.

3. The subsidiary silver coins are of three denominations, viz., 10, 20, and 50 sen. The 5, 10, 20, and 50-sen silver pieces issued under the old system are still allowed to circulate.

4. Other subsidiary coins are the nickel 5-sen pieces, and bronze 1-sen and 5-rin pieces. The former—1 and 2-sen—and 1 and 5-rin copper coins, are still permitted to circulate.

The old one-yen silver coin, which, up to the passing of the law in 1897, was legal tender for any amount, was gradually exchanged for gold coin at the rate of one gold

yen for one silver yen, and its final withdrawal from circulation was effected by 31st July, 1898.

There remains the question of the convertible notes. As already mentioned, the Convertible Notes Law, which provided for the issue by the Bank of Japan of bank notes convertible into silver on demand, was passed in May, 1884; and, on the passing of the law by which Japan adopted the gold standard in 1897, the existing bank notes became convertible into gold. It may be noted in regard to the paper currency issues, that the Bank of Japan is bound to hold, as a conversion reserve against the issue of notes, gold and silver coin and bullion equivalent to the total amount of the notes issued. As regards the proportion of silver held in the reserve, it is provided that the total value of silver coin and bullion shall not exceed one-fourth of the entire conversion reserve.

In addition to the notes which it may legally issue against the reserve of gold and silver, the Bank of Japan is specially permitted to issue notes to an amount not exceeding yen 120,000,000 (£12,291,304), on the security of Government loan bonds, Treasury bills, and other reliable securities or commercial bills. Further, should it be deemed necessary, on account of the condition of the money market, to increase the amount of money in circulation, additional bank notes may be issued against the deposit of like security, if sanctioned by the Minister of Finance. In this case, the Bank of Japan is required to pay an issue tax at the rate of not less than 5 per cent. per annum on the amount so issued.

The total amount of these bank notes in circulation at the end of October, 1923, was yen 1,433,385,000 (say £143,338,500).

Now, although the pre-eminent position in which the Bank of Japan finds itself to-day is largely the outcome of the support accorded to it by the authorities, it is due to the Japanese Government to say that this was not the

only bank or financial institution which was assisted to develop. The Japanese are most keen students of economic history; and, having once recognised that the success of Western commerce and industry arose from its well-arranged methods of finance and its soundly established banks, they set themselves to emulate the example of the West; and, alongside the measures taken for the reorganisation of their currency, earnest endeavours were made to place the banking system of Japan on a higher and more stable basis.

As we have seen, to facilitate the adjustment of the paper currency, the Government encouraged the establishment of National banks, to which were granted special powers to issue inconvertible paper; but the only result of this was to cause the notes to depreciate heavily, and eventually to reduce the banks themselves to the verge of bankruptcy. Nevertheless, although the banks failed in the original object for which they were instituted, there is no doubt that their institution, in November, 1872, marked the first stage in the modern banking system of Japan, and the laws under which the banks were promulgated (National Banking Regulations of November, 1872) had at least the effect of giving the Japanese an inkling of the best methods to be adopted for the effective and efficient control of banks and their operations. The regulations governing the National banks were, it should be noted, based on the National Bank Act of the United States of America; and as the provision for the conversion of the national bank notes into specie led to such disastrous results, the revision and amendment of the Statute of National Banks soon became a matter of vital necessity. Accordingly, an amendment to the Act was made in 1883, by which the note-issuing privileges of the banks were withdrawn and placed under the exclusive control of the newly-formed Bank of Japan: the total redemption of the National banks' notes was subsequently accomplished.

Seeing the pass to which it brought them, it will be

readily agreed that the note-issuing power of the National banks was not an unmixed blessing, but its withdrawal meant neither the restoration of the fortunes of the banks nor the sounding of their death knell: a few of them, it is true, went into liquidation, but the majority continued business in a more or less restricted manner until the expiry of their charter, when they assumed the rôle of private bankers. Generally speaking, we may say that the National banks ceased to exist as such after February, 1899; and the operations they subsequently conducted were governed thenceforth by the provisions of what are known as the Ordinary Banks' Regulations and the Savings Banks' Regulations, which, by the way, although promulgated in 1890, were not actually put into force until three years later.

The growth of the banks under these laws has been very rapid in Japan: at the end of June, 1914, there were in existence 2,159, which includes institutions for the financing of agriculture, industry, commerce, and almost every trade operation conceivable. We will not go into the working of the savings banks, as they are outside the scope of this book: it will suffice to say that their general constitution, operations, etc., differ in no material degree from the savings banks with which we are familiar in Europe.

The ordinary banks which come under the general banking laws of the country are very effectively controlled by the Minister of Finance, whose licence is required for their establishment. These so-called ordinary banks are obliged to permit the Minister at any time to make an investigation into their business and property, and, in addition, are compelled each half-year to forward to this gentleman a full copy of their balance sheet and details of the general position of the bank. Besides these ordinary banks, however, there now exist banks created for special purposes and governed by special banking laws.

Of the latter class, the Central Bank, or Bank of Japan (Nippon Ginkō), easily takes the premier place. It was

established in 1882 as a joint stock company, and its authorised capital, which, in the first instance, was yen 10,000,000 (£1,024,275), has been increased three times, until it now stands at yen 60,000,000 (£6,145,652), of which yen 37,500,000 (£3,841,032) has been paid up. Apart from its note-issuing privileges, the business carried on by this bank is: (1) to discount or purchase Government bills, bills of exchange, and commercial bills; (2) to buy or sell gold and silver bullion; (3) to make loans on security of gold and silver coin and bullion; (4) to collect bills for banks, companies, and merchants who are its regular customers; (5) to receive deposits, and to accept the custody of articles of value, such as gold, silver, and other precious metals and documents; and (6) to make advances in current accounts or loans for fixed periods on the security of Government bonds, Treasury bills, and other bonds and shares guaranteed by the Government. The bank is, in addition, entrusted with the management of the Treasury's receipts and disbursements.

The position of the Bank of Japan in Japan is analogous with that of the Bank of England in England, and its rates of interest are similarly determined; but, unlike the old lady of Threadneedle Street, which is a law unto itself in the matter of fixing bank rate, the directors of the Bank of Japan, while at liberty to fix their rate of interest in consultation with one another, are required to submit the proposed rate to the Minister of Finance for approval before it is publicly announced.

One or two of the other banks incorporated under the Special Banking Laws have been, in the early stages of their development, more or less under the aegis of the Japanese Government; and, as a matter of interest, we mention a few of the more important institutions.

The Yokohama Specie Bank (Yokohama Shōkin Ginkō) was founded in 1880; it had a capital of yen 3,000,000 (£307,283), and it was primarily established to assist the foreign trade of the country. In the early days of its

career, this bank was ably supported by the Government, which not only subscribed one-third of its capital, but also placed with the bank several million yen of the Treasury Reserve Fund, the object being to ensure the bank's having an ample amount of capital at its disposal for the discounting of foreign bills of exchange. Once the bank was on its feet, this liberal support was withdrawn, not before the Government had arranged, however, for the Bank of Japan to grant the Yokohama Specie Bank call loans against foreign bills of exchange to an amount not exceeding yen 15,000,000 (£1,536,413), the rate of interest charged being only 2 per cent. In the meantime, the rapid expansion of the bank's business necessitated an increase in its capital, which was raised in 1887 to £614,565, and again in 1896 to £1,229,130. Three years later the capital was doubled; and in March, 1911, it was decided to double again the capital to yen 48,000,000 (£4,916,522); and the approval of the Minister of Finance having been obtained, it was increased to yen 30,000,000 (£3,072,826), which has all been paid up.

The bank is permitted—

- (a) to deal in home and foreign exchange;
- (b) to make loans;
- (c) to receive deposits of money and to accept, for safe custody, articles of value;
- (d) to discount and collect bills of exchange, promissory notes, and other securities; and
- (e) to act as money changer.

The bank may also buy or sell public bonds, gold and silver bullion, and may also be entrusted with matters relating to foreign loans and with the management of public money for international account. It occupies, in fact, a very important position *vis-à-vis* the Japanese Government and the various nationalities connected with the issue of foreign loans to Japan, and is also a member of the great international financial consortium which has been formed in Europe and in America for the furnishing

of loan funds to the Chinese Government. In both connections, it has been an active participant in London in several of the great loans which have been floated during recent years on the London market.

In addition, the Yokohama Specie Bank issues, under Government authorisation, bank notes convertible into silver coins in the Province of Kwantung and China, being under the control of the Minister President of State and the Ministers of State for Foreign Affairs and Finance with respect to the issue in the former place, and the Ministers of State for Foreign Affairs and Finance with respect to the issue in the latter place. For the term of five years from July, 1913, the bank was also authorised to issue bank notes convertible into gold coins and notes of the Bank of Japan in the Kwantung Province.

Then there is the Hypothec Bank of Japan (Nippon Kwangyō Ginkō), which was created in 1897 for the purpose of making long term loans, on low rates of interest on mortgages, on movable property. It is at the same time largely concerned in the financing of big agricultural and industrial enterprises throughout the country, and is entitled to grant loans to various municipalities and local bodies in Japan without security. This bank is also empowered to take up the mortgage debentures of smaller institutions called local hypothec banks. Its capital is yen 40,000,000 (£4,097,101), of which yen 25,000,000 (£2,560,688) has been subscribed and paid up.

Another bank which is a most useful institution in such a progressive empire as the Japanese is the Industrial Bank of Japan, a joint stock company, established in April, 1902, under a law which had been specially promulgated for the purpose in March, 1900.<sup>1</sup> Its capital originally was yen 10,000,000 (£1,024,275), which, like most Japanese banking ventures, has since been increased, and now stands at yen 17,500,000 (£1,792,482) fully paid up. Just as the Hypothec Bank makes a speciality of furnishing

<sup>1</sup> Law of the Industrial Bank of Japan.



cheap loanable capital on the security of immovable property, so the Industrial Bank of Japan specialises in business connected with bonds, stocks and shares of various kinds; and, as the Government says, "while the former bank is a kind of *crédit foncier*, the latter institution is a species of *crédit mobilier*."<sup>1</sup>

To mention only a few of the operations this bank undertakes: it makes loans against the deposit of both imperial and local government loan bonds, companies' shares, debentures, etc.; participates in the issues of national and local government bonds and companies' debentures; discounts bills of exchange; undertakes trust business; makes advances on current accounts, and loans for fixed terms on the security of sites and buildings, etc.; and purchases national or local loan bonds or companies' debentures and shares, also gold and silver bullion, with money it happens to have lying idle in the course of its business.

The Industrial Bank is also authorised to issue debentures to an amount not exceeding ten times its paid-up capital; but in this case the amount of such debentures must not exceed the total amount of its outstanding loans, discounted bills, and advances on national or local loans, debentures, shares, and gold and silver bullion in hand. In the event of funds being required for enterprises for public benefit undertaken in a foreign country, however, the bank may, subject to the approval of the Japanese Minister of Finance, issue debentures irrespective of the above-mentioned restriction.

The Japanese Government had also had an eye to the provision of capital for Colonial development, and two other banks up to the present have been established for this purpose, namely, the Hokkaido Colonial Bank and the Bank of Taiwan, the operations of the former being confined to the administrative circuit of Hokkaido and Karafuto; and those of the latter to the Island of Formosa,

<sup>1</sup> Financial and Economic Annual—Department of Finance.

which, it will be remembered, was ceded by China to Japan in 1895.

All the banks above mentioned, and various other agricultural and industrial banks, work in their special sphere and confine themselves to their own special business, and it is not too much to say that one and all are under Government control and protection. But while they are variously subject to restrictions due to the objects for which they were respectively established, they enjoy, on the other hand, privileges more or less profitable, which amply compensate them for the disadvantages arising out of their limited field of operations.

## CHAPTER XIV

### THE FOREIGN TRADE OF JAPAN

To tell of the rise of the foreign trade of Japan is to describe an achievement second to none in the annals of commercial history. For many, many years, Japan had been content to keep herself splendidly isolated from the other great nations of the world: she had entered into no commercial relations with the West; her foreign trade was negligible; and one and all of the people seemed passively to acquiesce in her unenviable position as a hermit nation. As events turned out, however, this wall of seclusion was destined to receive a rude shock, for at the very moment when the commercial instincts of the Japanese seemed to be about as dormant as they possibly could be, the barrier between their country and the world at large was suddenly broken down by an occurrence as simple as it was unlooked for: in the year 1854, Commodore Perry's fleet dropped anchor in the Bay of Uraga. What followed was little short of marvellous; the inertia of the Japanese disappeared as if by magic, and not by slow evolution but with one convulsive effort the rulers of the people shook themselves free from the sleepy trammels of Orientalism and proceeded forthwith to find a way out for the latent energies of their merchants and traders. By the year 1858, commercial treaties with five European Powers had been negotiated, and five Treaty Ports opened: others quickly followed, and very soon the number of Treaty Ports reached forty-four; and side by side with their advance in commercial spheres, the social and economic condition of the nation underwent incredible changes.

All this and more is reflected in the growth of the country's foreign trade, and one has only to take a cursory glance at the following figures to be convinced of the speed

with which Japanese business interests abroad have been developed.

The total value of imports and exports in 1868 was yen 26,246,545; in 1880 the total had increased to yen 65,021,988; in 1888 to yen 131,160,744. A few years later came the Japan-China War, which seems to have given a still greater impetus to the foreign trade of the country, which, in 1897, reached the enormous total of yen 382,435,849. But even this figure was trebled after the war with Russia, and in 1907 a value of yen 926,880,219 was recorded. Seven years later, in 1914, the total volume of the import and export trade was yen 1,186,837,186 (£121,564,804), while for 1922 the total value of Japan's foreign trade was yen 3,527,761,000 (say £352,776,100).

The first really great advance in the foreign trade occurred in the year 1886, and this era of commercial improvement was synonymous with the resumption of specie payments and the casting off of the depreciated paper incubus. As the official records show, Japanese foreign commerce immediately entered upon a period of remarkable progress, and at the same time changed its character and geographical distribution. Up to about 1890, the exports had been solely confined to the surplus produce of the country; but once the new order of things became generally known, there arose a demand for Japanese wares, and many new industries were called into existence, with the result that the export of manufactured goods has gradually increased until at the present time it greatly exceeds the exports of raw materials. Then, too, the adoption of the Gold Standard in 1897 was itself no mean contributory factor to the advancement of Japan to the level of one of the great commercial nations of the world.

As regards the distribution of the country's foreign trade, it will be useful to take first the position in 1914. During that year it was found that 78 per cent. was divided between the British Empire, the United States,

Hawaii and the Philippine Islands, and China. Imports from Great Britain, its Colonies and Dependencies, amounted to yen 273,247,066 (£27,988,023), and exports thereto to yen 117,896,767 (£12,075,875). Our total participation was, therefore, equal to £40,063,898, or nearly one-third of the total foreign trade of Japan. The import and export trade with the United States, Hawaii, and the Philippines amounted to yen 312,394,814 (£31,997,830), and that with China to yen 220,676,707 (£22,603,371). From these figures, it will be obvious that the nations in question have practically the monopoly of the trade of Japan; the total of their operations in 1914 (£94,665,098) did, in fact, account for 78 per cent. of the entire foreign trade of the country. In the import trade, British India took first place, mainly on account of her imports of raw cotton and rice, of which Japan took, in the year under review, the equivalent of £16,421,639. Next in order of merit came the United States of America with imports amounting to £9,912,023, while Great Britain was not far behind with a total of £9,454,298. Chinese imports totalled £5,972,118.

In the year 1922 Great Britain and her dependencies' participation in the foreign trade of Japan was 18 per cent. of the exports and 32 per cent. of the imports. In the same year 46 per cent. of the total exports and 32 per cent. of the imports represented the share of the U.S.A., while China and Kwantung took 25 per cent. of the exports and sent to Japan 17 per cent. of the imports. The share of the United Kingdom in the import trade has declined of recent years. Before the war it was 16 per cent., but at present (1923) it is only a little over 14 per cent. Imports from Japan to the United Kingdom in 1922 were valued at £8,444,000, while exports to Japan from the United Kingdom were valued at £23,974,000.

According to the latest trade returns it appears that the greater part of Japan's business is done with the British Empire, the United States and China. These

three between them enjoyed in 1922-23 82 per cent. of the total trade. America heads the list with 37 per cent., the British Empire is next with 25 per cent., and China third with 20 per cent. The fourth, fifth, and sixth countries are the Dutch East Indies, Germany and France, with between 2 per cent. and 3 per cent. each.

The bulk of the foreign trade of Japan, it should be noted, enters or leaves the country *via* Yokohama and Kobe, the two largest of the thirty-seven open ports with which Japan is blessed. The exports, of which about 45 per cent. pass through Yokohama, may be classified under five main headings: agricultural products, mineral products, textile manufactures, other manufactures, and marine products. Of the agricultural products, raw silk and habutae (silk tissue) are the most important. Silk, indeed, stands first among all other commodities exported from Japan; and as practically all the silk which is produced is shipped from Yokohama, that port occupies about as important a position in the silk trade of Japan as that enjoyed by the "Port" of Manchester in the piece-goods trade of the United Kingdom. In 1914, the exports of raw and waste silk amounted to yen 166,470,101 (£16,989,656), and silk manufactures to yen 30,893,538 (£3,153,720).

The United States is the chief customer for the silk of Japan, and takes annually about 70 per cent. of the quantity produced. In 1922 raw silk exported from Japan to the U.S.A. was valued at yen 610,844,000; while that exported to Great Britain and France was valued at yen 2,887,000 and yen 55,191,000 respectively. Of silk tissues the U.S.A. took in the same year yen 26,634,000, Great Britain yen 20,368,000, and France yen 8,390,000. It is really the enormous exports of raw silk and raw cotton that give America pride of place in Japan's trade. These two items alone in 1922 accounted for over 60 per cent. of Japan's total trade. Incidentally, it is important to note that Japan's commercial prosperity of recent years has rested largely on her enormous export trade in raw

silk. The exports of this commodity for 1922 were 344,192 piculs of a declared value of yen 670,047,000.

Tea is about the next important agricultural product, but, as it is principally of the green variety, not much of it comes to Europe. The amount exported in 1922 was valued at yen 17,826,000, the greater part of which export was sent to the United States.

A good deal of sugar is produced, but this nearly all goes to China.

Japan also raises a fair amount of rice, but the crop fluctuates greatly and, so far, not a great deal has found its way to Europe.

The textile trade of Japan is gradually assuming very large proportions, and the development in cotton yarns has been most conspicuous during the last decade. About ten years ago the total exports were nearly yen 20,000,000, but by 1922-23 they had increased to yen 114,725,000 (£11,472,500): China and a few other Eastern countries are the principal customers for this product. The export of cotton tissues also figures largely in the trade returns. For 1922 they were valued at yen 222,145,000 (£22,214,500). Nearly 70 per cent. of this export consists of grey shirtings and sheetings, drills and jeans, China, British India and the Dutch East Indies being the principal importers.

Other manufactures comprise a heterogeneous collection of works of art, porcelain, lacquer ware, metal ornaments, wood and ivory carvings, and such like, which are chiefly purchased by America, Great Britain, France, and other Continental nations. Included in this group are also such things as matches, straw braids and plaits, toys, etc., the export of which has been on the increase of late years.

Imports may be conveniently divided into three groups: Agricultural products, textile manufactures, and metal manufactures.

Raw cotton heads the list not only of the agricultural produce, but also of all the imports into Japan. About

fifteen years ago, the imports amounted to yen 79,784,772; in 1922-23 the value of raw cotton imported was yen 438,173,000, the increase being almost entirely due to the rapid growth of the cotton-spinning industry in Japan. British India is the chief source of supply, having sent over 50 per cent. of the above-mentioned amount; a fair quantity was also imported from the United States and China and Egypt.

The importation of woollen and worsted piece goods is very important, the total quantity imported in 1922 being valued at yen 50,044,000, a very large proportion of which emanated from the United Kingdom. The total imports of British piece goods in 1922 were, in fact, valued at yen 48,500,000. Japan, in the year in question, was the United Kingdom's best customer for these products, and taking the woollen industry as a whole it is reported that wool accounts for about 30 per cent. of the total imports from the United Kingdom into Japan.

The imports of raw cotton are also important, the value in 1911 being yen 427,836,000. British India is the main source of supply, having furnished 4,944,000 piculs. The U.S.A. sent 2,899,000 piculs, China, 633,000, and Egypt 108,000 piculs. The imports of cotton tissues were valued at yen 14,018,000, practically all of which emanated from the United Kingdom.

The Japanese are great consumers of rice, and about 90 per cent. of the quantity imported is received from British India and French Indo-China; the value in 1922 was yen 61,328,000.

Machinery imports in 1922 were valued at yen 114,496,000, out of which the U.S.A. contributed yen 57,310,000, the United Kingdom yen 42,203,000 and Germany yen 7,891,000. In textile machinery over 20 million yen worth was imported from the United Kingdom as against 8 million yen from the U.S.A.; but of electrical machinery the larger proportion is taken from America.



**JAPAN**  
**IMPORTS AND EXPORTS FOR THE YEARS 1921 AND 1922**

	Whole year.		Increase(+) Decrease(—)
	1922.	1921.	
	<i>Thousand yen</i>	<i>Thousand yen</i>	<i>Thousand yen</i>
<b>Value of commodities imported—</b>			
1. Food, Drink and Tobacco . . . . .	290,236	208,329	+ 81,907
2. Raw Materials . . . . .	828,048	757,020	+ 71,028
3. Manufactures for further use in manufacturing . . . . .	390,572	324,058	+ 66,514
4. Articles wholly manufactured . . . . .	365,385	311,469	+ 53,916
5. Miscellaneous . . . . .	16,073	13,279	+ 2,794
Total . . . . .	1,890,314	1,614,155	+ 276,159
<b>Value of commodities exported—</b>			
1. Food, Drink and Tobacco . . . . .	104,396	79,682	+ 24,714
2. Raw Materials . . . . .	84,736	79,409	+ 5,327
3. Manufactures for further use in manufacturing . . . . .	842,431	550,727	+ 291,704
4. Articles wholly manufactured . . . . .	581,951	524,175	+ 57,776
5. Miscellaneous . . . . .	23,933	18,845	+ 5,088
Total . . . . .	1,637,447	1,252,838	+ 384,609
Excess of Exports . . . . .	—	—	—
Excess of Imports . . . . .	252,867	361,317	— 108,450
<b>Value of coins and bullion imported—</b>			
1. Gold . . . . .	926	130,060	— 129,134
2. Silver . . . . .	746	8,562	— 7,816
Total . . . . .	1,672	138,622	— 136,950
<b>Value of coins and bullion exported—</b>			
1. Gold . . . . .	—	—	—
2. Silver . . . . .	2,181	—	+ 2,181
Total . . . . .	2,181	—	+ 2,181
Excess of Exports . . . . .	509	—	+ 509
Excess of Imports . . . . .	—	138,622	— 138,622

Great Britain and the U.S.A. are also to the fore in imports of iron and steel, which in 1922 were valued at yen 175 million, the American and British shares respectively being 87 and 33 million yen.

The effect of the late war is very noticeable in Japan's statistics for 1922. The foreign trade of Japan proper for that year shows the following totals: Imports, yen 1,890,314,000; Exports, yen 1,637,447,000.

The heavy increase in imports is, of course, responsible for the adverse balance against Japan of yen 252,867,000; but if account be taken of the high values ruling in 1922 the result is not at all unfavourable as compared with, say, the 1912-13 period, when the excess of imports amounted to yen 92 millions. The year before the war, too, showed

a balance of trade against Japan of yen 96,971,431 ; consequently the country, so far from losing headway, has really more than maintained its position.

In connection with the imports and exports of Japan, a word or two ought to be said about the Customs dues.

The Customs Tariff of Japan is almost entirely determined by Treaty. There are no export duties, but the impositions on imports are fairly extensive and cover a list of about 650 articles, which are classified into seventeen groups. Raw materials are mostly duty free, and those on half-manufactured articles are comparatively light. Upon manufactured goods the rates vary from 15 to 50 per cent.; but the majority of the articles are not subject to the heaviest rate, and, in fixing the schedule, care has been taken to distinguish between commodities which are of public utility and those which fall under the heading of luxuries. The importation of manufactured goods upon which the 40 per cent. rate is levied is very small; and those upon which the full duty of 50 per cent. is charged are luxuries, the import of which, in the best interests of Japan, it is undesirable to encourage.

Up to 1911 the principal conventions with foreign countries in regard to Customs duties were with Great Britain, Germany, and France, all of which expired during July and August of that year; and, before their expiry date, it became necessary to negotiate new treaties. A new Tariff Convention was first concluded with Great Britain and, in the terms of this Treaty, Great Britain guaranteed that ten of the principal articles of export from Japan to England should be exempt from British import duties. In return for this concession, Japan agreed to make concessions in the Japanese Customs duties upon the principal articles of British merchandise imported into Japan, such as paints, linen yarns, cotton tissues, woollen tissues, mixed tissues of wool and cotton, and iron sheets. A similar Convention was then made with Germany, under which, in consideration of concessions made by Germany

in the Customs duties charged upon the principal Japanese products, reductions were made by Japan in the Customs duties upon the principal German imports, such as leather, salicylic acid, quinine, artificial indigo, dyes, woollen yarns, mixed tissues of wool and cotton, etc. Finally, a new Convention was made with France;<sup>1</sup> and in consideration of the application of the French minimum tariff rates to the principal Japanese products, reductions were made in the Customs duties to be levied by Japan upon the main French imports, such as sardines, wines, perfumery, woollen yarns, tissues, automobiles, etc. Both countries are at liberty, however, to raise or reduce their Customs Tariff; and in the event of the duties being raised, the party which did not alter its tariff may, after three months' notice, cancel the Convention relating to Customs duties.

It might be noted that the Convention with Germany came to an end upon the outbreak of war on the 23rd August, 1914.

Owing to the conditions arising out of the severe earthquake which visited Japan in 1923, a good deal of modification has had to be made in the Customs Tariff, principally with a view to facilitating the import of those materials needed for reconstruction. In view of the interest taken in the catastrophe it may not be out of place to give a short account of the earthquake, which caused such an appalling loss of life and property in Tokyo, Yokohama and the surrounding districts.

The first shock was felt at 11.58 in the morning of the 1st of September, 1923. It was a very sharp vertical shock, followed by an incessant series of shocks for the next 36 hours. Those recorded at the Central Observatory in Tokyo for a week after the first were as shown in the following table—

September 1st—222 shocks	September 5th—109 shocks
„ 2nd—323 „	„ 6th— 41 „
„ 3rd—181 „	„ 7th— 45 „
„ 4th—184 „	

The fire which broke out immediately after the first shock caused the total destruction of the cities and towns and increased the number of casualties. The approximate loss of life and property in the stricken districts, as far as can be ascertained, was—

	<i>Houses destroyed.</i>	<i>People killed.</i>
Tokio . . . .	302,000	65,300
Yokohama . . .	79,000	23,400
Other places . .	172,000	9,700

The area of the burnt quarter in Tokyo was about 13 square miles, being 44 per cent. of the city, and is nearly six times as large as the area burnt in the Great Fire of London in 1666. It covered the business quarter, the main shopping quarter, and the other low-lying parts of the town, which were densely populated. The sufferers were estimated at about 1,610,000, which corresponded to 71 per cent. of the whole population of the city. Many public buildings were totally or partly destroyed.

Yokohama may be said to have been practically destroyed. Nearly 80 per cent. of the buildings were reduced to ruins by earthquake and fire, and the number of sufferers was reported to be 350,000, or about 78 per cent. of the whole population, including 7,500 foreign residents.

It is interesting to note that the considered view of seismologists is that no further serious earthquake is to be anticipated in Tokyo and surrounding country for at least a century.

The magnitude of this disaster, necessarily called for heroic measures. Immediate relief works were taken in hand, and at the end of December, 1923, accommodation had been found for a considerable number of the homeless people. In Tokyo about two-thirds of the population had returned to temporary cottages and public lodgments. Means of communication had been gradually restored to the state existing prior to the disaster, and the various banking and business houses were reported to be functioning.

To come to matters financial, immediately after the earthquake a moratorium was proclaimed for September, 1923. After that terminated an Imperial Ordinance was promulgated regarding compensation for the discounting of bills. The Government took powers to enter into a contract with the Bank of Japan for the payment of compensation up to an amount not exceeding 100,000,000 yen, for losses that might be incurred by that bank in discounting various bills of exchange maturing before the end of September, 1925. A time limit was fixed, however, for the discounting of certain bills by the Bank of Japan, the period to expire on 31st March, 1924. Further, the Bank of Japan assumed a liberal lending policy towards the other banks against the security of national bonds, monopoly bonds, debentures, and stocks and shares. A part of the Treasury Fund was also made available by the Government, working through the Industrial Bank of Japan, to assist in the resuscitation of various small industries. In addition ample accommodation for reconstruction purposes was put at the disposal of the larger industries by the Government.

In order to formulate definite reconstruction plans, a Capital Restoration Council was established, with the Prime Minister as Chairman. A Capital Restoration Board was also set up under the supervision of the Prime Minister, its duty being to formulate as well as to carry out the execution of the various reconstruction schemes. The first scheme recommended by the Council was adopted by the Government, and this, the first scheme to be executed by the Board, was town-planning work.

Energetic measures were also taken by the Government with a view to helping in the restoration of private undertakings. In the first place, the Import Tariffs on food, clothing materials, building materials, various types of machines, etc., which were required either for immediate relief or for reconstruction work, were removed. Secondly, the Government made arrangements with the Industrial

Bank of Japan and the Hypothec Bank of Japan to finance the people by letting them have funds for restoration purposes at a very low rate of interest. These funds were supplied to the banks from money deposited with the Government. The Industrial Bank was given the task of dealing with finance for industrial restoration; while the Hypothec Bank's duty was to make advances for the re-building of houses, shops, warehouses, etc. Then, thirdly, something had to be done to assist with payments for fire insurance. The Government decided to undertake to advance to any fire insurance company, at a low rate of interest (2 per cent. per annum) for long periods, the amounts necessary for payment of *ex gratia* grants by such companies, provided that the sums were equivalent to 10 per cent. of the amount insured. The Government, further decided to remit or to reduce the income and the business taxes which were due to be collected during the current financial year.

To deal with the various financial proposals arising out of the contingencies caused by the earthquake, an extraordinary Session of the Imperial Diet was summoned for two weeks from 10th December, 1923, during which the Supplementary Budget estimate was passed authorising the Government to spend a total sum of yen 463,000,000 for the reconstruction of the capital and other stricken areas. The work which is to be carried out under this vote mainly concerns town planning; the direct expenditure for this work amounts to yen 336,000,000, the defrayment of which will be spread over six years. The loans and subsidies for the reconstruction of municipal undertakings, were also included in the vote.

## CHAPTER XV

### WHICH PRINCIPALLY CONCERNS THE FINANCING OF JAPAN'S FOREIGN TRADE BY MEANS OF BILLS OF EXCHANGE AND OTHER CREDIT INSTRUMENTS—JAPAN'S FOREIGN LOANS : THEIR EFFECT ON EXCHANGE

As will have been gathered from our chapter on the Japanese banking system, the general trade of Japan is fairly well catered for by the Central Bank and the principal native banking institutions; but the extent to which the resources of these bodies are drawn on for the financing of the internal trade of the country is such that several important European and American branch banks find ample scope for financial operations in connection with the foreign trade of Japan.

Among the more important foreign banks established in the principal ports are : the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia, and China; the Mercantile Bank of India; the Russo-Asiatic Bank; the Banque de l'Indo-Chine; and the International Banking Corporation. These banks, together with their Japanese *confrères*, are responsible for an enormous bill business, and an idea of the combined operations of the various banking interests may be gauged from the figures published by the Clearing Houses in Japan. The Empire, we might mention in passing, has a very effective clearing-house system based on the European and American models. There are, at the present time, eleven Clearing Houses in the country, supported by a large number of associated banks; and the total value of bills passed through the chief clearing houses in 1922 was yen 70,548,038,284 (say, £70,548,828).

Japanese industries, trade, and production still being more or less in the expansion stage, there is an ever-growing demand for all forms of capital, and accommodation is,

in consequence, somewhat expensive. High rates are given and charged for the use of money; and the way this Eastern race is developing, and the extent of its trade and commerce in the face of such a drawback, is a striking comment on its will to progress in spite of all obstacles.

As a matter of fact, the legal rate of interest in Japan is 5 per cent.; but as there are no usury laws, any rate of interest may be contracted for, and it is not uncommon for as much as 12 per cent. to be charged on some transactions. However, taking the year 1918, we find the following rates in force throughout the country—

On loans, the highest rate charged was 10·8 per cent.; the lowest, 7 per cent.: average for the year, 8·3 per cent.

On overdrafts, the highest rate was 9·7 per cent., the lowest 6·5 per cent., and the average for the year 7·7 per cent.; while for the discounting of bills of exchange, the highest rate charged was 9·6 per cent., the lowest 6·6 per cent., and the average for the year 7·8 per cent.

But cheaper capital was obtainable at the Bank of Japan, whose highest rate on loans was 8 per cent., lowest 5·5 per cent.: average 6·4 per cent.

Highest rate on overdrafts 7·7 per cent., lowest 6·2 per cent.: average 6·5 per cent.,

For discounting bills, its highest rate was 6·6 per cent., lowest 5·1 per cent., and the average for the year 5·4 per cent.

In a European country, such high rates of interest would have been a serious obstacle to trade; but, judging from the commercial progress of Japan during the last decade, she does not appear to have been unduly handicapped by the cost of funds; and the probability is that the lower Eastern standard of living is the factor which counteracts the adverse effects of dear money.

There is not a great deal to be said about the financing



of the foreign trade of Japan, as conditions do not differ materially from those we have described in the case of India and other countries. Shipments both to and from Japan are financed by bills of exchange drawn under one or other of the many forms of credit in existence. If a merchant in the United Kingdom wishes to send, say, machinery, cotton goods, or yarns to Japan, he will see to it that his consignee in Japan opens a documentary credit through one of the Eastern banks with a branch in London; and when the shipment is ready, he will present to the banker the full set of shipping documents, consisting of bill of lading in triplicate, invoice, policy or certificate of marine insurance, and certificate of origin.

The certificate of origin, it should be added, is required in all cases where goods emanate from or are manufactured in Continental countries, and the shipment in question ultimately financed through London. If the goods are of British manufacture sent direct from the United Kingdom, no certificate of origin is necessary.<sup>1</sup>

As far as the bill of lading is concerned, it is probably unnecessary to state that the Japanese Commercial Code requires this document of title to goods to be signed by the master of the ship or the person acting in his stead. A bill of lading must also contain the following particulars—

- (a) The name and nationality of the vessel.
- (b) The name of the master, unless he himself executes the bill of lading.
- (c) Full description of the goods (i.e. weight, bulk, note of packages, number, and markings).
- (d) The name or the trade name of the charterer or shipper, and that of the consignee.
- (e) Port of loading and port of discharge. But if the port of discharge is to be designated by the charterer or by shipper after the commencement of the voyage,

<sup>1</sup> During the war, a certificate of origin had an addition to it certifying that no enemy interest was attaching to the shipment.

the port where such designation is to be made must be stated.

(f) The freight.

(g) If the bill of lading be drawn in several parts, the number of such parts.<sup>1</sup>

Attached to this heterogeneous collection of shipping documents will be a bill of exchange (also in duplicate or triplicate), usually drawn for the invoice cost of the goods; and, if everything appears to be in order, the banker will buy the bill, and send it out to his branch in Japan for presentation for acceptance and payment in due course.

The proceeds of the bills as and when received will be utilised by the bank in Japan to purchase bills out there drawn on London for shipment to the United Kingdom and elsewhere in Europe or America, and what happens then is practically a reversal of the procedure for the outward shipment.

Bills of exchange may be drawn "documents on acceptance," "documents on payment," and "clean"; and the principal usance is three to four months. Six months' bills are also occasionally drawn, but (as we have mentioned elsewhere) Eastern bankers do not like this long-dated paper.

Any trader may, of course, elect to send his bills for collection, in which case he will not receive his money until the bills have arrived at their destination, have been accepted and paid, and the proceeds finally remitted home to London or to some other city. Often, however, arrangements are made for the bank's foreign branch to send a cable announcing payment and, on its receipt, the money will be paid over to the drawer immediately at the current rate of exchange for demand bills, less the telegraphic expenses.

The greater part of the financing of shipments to Japan is carried out on an interest basis, that is to say, bankers

<sup>1</sup> Cf. Commercial Code of Japan, Sub-Section II, art. 621 (Dr. Loenholm's translation).

require the bills which they buy or upon which they advance to be drawn at so many months' date or sight, and marked " at the A B Bank's drawing rate for demand drafts on London, with interest at (say) 7 per cent. per annum." When the draft is paid, at or before maturity, the drawee is also called upon to pay interest on the amount represented by the bill from its date to the approximate due date of the arrival of the remittance in London; and this interest, plus any sum the banker may make on the exchange, represents his profit on the transaction. In such circumstances, it is apparent that it is often to the drawee's advantage to pay the bill before its due date; but the option of receiving payment lies with the holder of the bill, who is not legally bound to accept payment before maturity.

According to the law of Japan, too, the amount due on a bill of exchange is payable in the currency in which the bill is drawn; but where a bill does not specify any currency, it is presumed that the intention is to pay in the money current among traders at the place of payment.

The interest clause is not confined to bills payable after date or sight: it may be, and is usually, applicable to demand bills also. Again, the terms in which bills for collection are drawn often call for interest from date of the bill until date of arrival of the money in London; but in this case the extra amount collected is the property of the drawer, not of the banker; and as the rate for interest on outward bills often runs fairly high—it is 7 per cent. per annum at the time of writing—the drawers of " B/C's," as they are called, not infrequently seize the opportunity to make a few months' extra interest. It may be said, in fact, that about 40 per cent. of the B/C's drawn on the East contain the stipulation for interest.

Incidentally, it may be pointed out that some Japanese lawyers maintain that interest on the principal sum named in a bill is not, in Japanese law, entitled to be treated as part of the instrument; and they go so far as to state that

if interest is to be made payable, it should be computed in advance and put in as part of the principal sum. The point does not seem to be of great importance, however, as even though the law does not specially regard the interest clause as one of the things which may be properly inserted in a bill of exchange, such a stipulation is undoubtedly binding as a contract between the immediate parties to the bill.<sup>1</sup>

A fair amount of accepting in London is done by the banks for shipments to Japan against the hypothecation of the goods. The consignor, usually a person or firm of very high standing, hands complete shipping documents to the banks and draws a bill on the banker in London for the full or proportionate cost of the shipment. This bill the banker accepts and sends it back to the shipper, who, it is to be presumed, promptly discounts it on the market, or, what comes to very much the same thing, sells the bill to one of the joint stock banks. This acceptance is treated as an advance on the shipment, and the procedure is the same as that described for "India": for, in consideration of the bank's accepting the draft or drafts for account of the consignor, not only the goods, but the proceeds thereof, are treated as specially pledged to the bank by way of collateral security for the due payment of the acceptance, interest, usual charges, commission, and any other expenses.

All bills of exchange should bear a statement signifying what they purport to be: in English, for example, the words "Bill of Exchange," or "First of Exchange," should be used; in French, "Lettre de Change"; in German, "Wechsel"; in Japanese the words "Kawase-tegata" are sufficient.

There are no days of grace for the payment of bills allowed in Japan, therefore a bill of exchange accepted and made payable on the 1st January must be paid that day. But days for payment customary at a place must be observed; so when the maturity date falls on a Sunday

<sup>1</sup> Cf. *Pointers on Japanese Law*, by J. E. de Becker, LL.B., p. 55.

or on a general holiday, the next succeeding business day is the day on which payment can be demanded legally. In the event of non-acceptance or non-payment, all bills or notes must be protested if the holder wishes to preserve recourse against the prior parties to the document.

There are a few other peculiarities which may be noted in regard to that part of the Japanese Commercial Code which governs bills of exchange.

If the drawee of a bill of exchange which is payable at a fixed day after sight does not accept it on presentation by the holder, or does not date the acceptance, the holder must have the bill protested within the time limited for presentation. Where this is done, the day of protest is taken as the date of presentation; and it should be remembered that if the holder omits to have the bill protested, he loses his rights under the instrument as against the prior parties. As a matter of fact, the holder of a bill payable at sight or at a fixed day after sight, can present it for acceptance any time within one year from its date; the drawer, however, is perfectly entitled to fix a shorter period for presentation.

The drawee may limit his acceptance to a part only of the sum mentioned in the bill, but in such circumstances the holder is legally entitled to require prior parties to give him satisfactory security for the rest of the amount payable on the bill plus expenses; and, to preserve recourse, protest for non-acceptance should be made.

When payment takes place, the payer may insist upon the holder's making a signed statement to that effect on the bill before handing it over. Then, even in cases where acceptance is for the whole amount mentioned in the bill, the holder must not refuse to accept part payment if tendered; and he is obliged, moreover, to make a note of such part payment on the bill itself, and, further, he has to give the payer a complete signed copy of the bill in question.<sup>1</sup>

<sup>1</sup> *Vide* Commercial Code of Japan, Sections I-X.

The Exchange Banks in Japan quote rates of exchange on most foreign centres, but their principal business is with London, Paris, New York and San Francisco, Berlin, Hong-Kong, Shanghai, and India. On London, of course, rates are quoted in shillings and pence to the Japanese yen; and the following is a specimen exchange list—

DATE.	LONDON.			
Aug. 1. T. T.	<i>Bank demand.</i>	<i>Bank. 4 m/s.</i>	<i>Private credits. 4 m/s.</i>	<i>Private credits. 6 m/s.</i>
2/1½	2/1-5/16	2/1-9/16	2/2-3/16	2/2-7/16

NEW YORK AND SAN FRANCISCO.		
	<i>Bank demand.</i>	<i>Private Credits. 4 m/s.</i>
	50½	51½

PARIS.			
	<i>Bank Demand.</i>	<i>Bank 4 m/s.</i>	<i>Private Credits. 4 m/s.</i>
	2.97½	—	3.19

HONG-KONG.		SHANGHAI.		INDIA.	
<i>Bank Demand.</i>	<i>Private Credits. 10 d/s.</i>	<i>Bank Demand.</i>	<i>Private Credits. 10 d/s.</i>	<i>Bank Demand.</i>	<i>Private Credits. 30 d/s.</i>
99½	97½	73	74½	157½	159½

Under the heading of London, the T.T. rate (2s. 1½d.) indicates the number of shillings and pence which will be given in exchange for each yen of Japanese currency, the sterling to be telegraphed from Japan to the bank's London office, and paid over to whomsoever the person remitting

desires as soon as the cable giving the instructions can be decoded in London. Bank demand gives the number of shillings and pence for which a bank bill, payable on demand in London, can be purchased in Japan for one yen, and bank 4 m/s gives the amount in sterling which will be surrendered for each yen for a bill drawn on a London bank payable four months and three days after sight, the extra three days being the days of grace allowed in English law. In actual practice, these quotations are the prices for which the banks will *sell* the various classes of remittance. The Private Credits, on the other hand, are the banks' *buying* rates for first-class commercial bills. For example, if a trader in Japan has drawn a bill on London payable four months after sight, which he wishes the banker to buy: the latter will give him one yen for each 2s. 2 $\frac{3}{8}$ d. included in the amount of the bill, and the same remarks apply to the six months' bill.

The American rates mean so many United States' dollars per 100 yen Japanese currency; but when we get to France, the price of bills on Paris is quoted so many francs and centimes to each Japanese yen: so the selling rate according to our list is the Bank Demand 2 francs 97 $\frac{1}{2}$  centimes to 1 yen, and the buying rate is 3 francs 19 centimes to the yen in Japan.

The Hong-Kong quotation means so many Hong-Kong dollars per 100 yen (i.e. \$99 $\frac{1}{2}$  on demand, \$97 payable in Hong-Kong ten days after sight), the latter bill being the cheaper for the obvious reason that the person who receives it has to wait ten days before he can get his money. In other words, the seller will receive less dollars per 100 yen when disposing of a ten days' sight bill than he would if he were selling one payable on demand or at sight. The rates on Shanghai admit of a similar interpretation: they each mean so many Shanghai taels exchangeable for 100 Japanese yen; and as the tael is usually worth more than the yen, not so much of the Chinese currency will be given for the Japanese money.

Then when we get to India we are dealing with rupees, the nominal value of which, in sterling, is 1s. 4d. as against the 2s. 0·5d. for the Japanese yen: so, plainly, we must get more rupees for every 100 yen paid; and, on looking at the rates, we see that in exchange for 100 yen the bank will give the buyer 157½ Indian rupees. For a bill payable after sight, the seller will, in his turn, have to surrender more rupees for each 100 yen.

All bills drawn in Japan, whether on a foreign country or not, are chargeable with stamp duty at the rate of 3 sen per bill. The sen is one-hundredth part of one yen. There are no stamp duties on bills of exchange drawn upon Japan from any other country: but it is one of the curiosities of Japanese law to find, on the one hand, the Stamp Duties' Act requiring those who draw bills *in Japan* to stamp them with a 3-sen stamp; while, on the other hand, the Customs Duties' Act exempts all negotiable instruments from the duties.

In connection with exchange, there remains to be considered Japan's foreign loans.

In recent years, Japan has raised a good deal of money on the London and Paris markets; and, as a matter of interest, we give a summary of the various loans issued together with the balance outstanding. The reason these additional details are given is, that the external indebtedness of a country like Japan, or, indeed, of any country, is of considerable importance from the point of view of the foreign exchanges—the more so, because the effects are very often seen over a long period.

In the first instance, the raising of a loan by Japan will affect its trade balance, for immediately the loan is floated, what happens in reality is that she exports the equivalent amount in securities to, say, England, the lending country (i.e. the importer), and the effect on Japan will be to liquidate the whole or part of her unfavourable balance of trade with us. So far, then, the raising of the loan in London serves exactly the same



purpose as if the Japanese had exported commodities equal to the total value of the loan. Great Britain, similarly, is in precisely the same position as if her importers had contracted for and taken, say, large quantities of Japanese silk. The effect on the rate of exchange between London and Japan will be apparent, since directly the proceeds of the loan are sent abroad in payment for the bonds, exchange will tend to turn in favour of the borrowing country and against the lending country.

So much for the immediate effects; the ultimate effects will be rather different, as they act in the reverse way. We refer to the interest payments on the loans, which, for all practical purposes, are perhaps of greater importance to the two countries than the loans themselves, as they constitute what may be said to represent an unfavourable influence on the exchange of the borrowing country over a long period. Interest on these foreign obligations is payable by coupons, and when these fall due the rôle is changed, and the lending country becomes the exporter, while the borrowers are the importers; and the total amount of the coupons Japan imports from foreign countries obviously affects her trade balance and, *pari passu*, her exchanges with the countries exporting the coupons.

Now, if an exchange dealer is up to his business, he will know the dates at which the various payments have to be met and, realising their effect on exchange, he can base his operations accordingly. Take the case of Japan and London, if an operator on exchange knows that, following on the export of coupons from London, the rate may be against Japan, that is to say, the yen will be worth less than, say, 2s. 0½d., he will be in a position to make forward exchange contracts at a rate estimated to return him a satisfactory profit when the settlement falls due.

The fact that, in peace time, Great Britain was able to

issue so many foreign loans on the London market was one of the things which, during the war, enabled her to maintain her financial position so satisfactorily, notwithstanding her continued adverse trade balance. London is in the happy position of receiving every year large sums of money in payment of interest on these loans due to her from foreign countries; or, to put it another way, she is able continually to export coupons, and these serve to reduce very considerably the balance of indebtedness against her.

It should be remembered, then, that foreign loans raised by one country for another increase the indebtedness of the lending country at the time the loans are contracted, but the subsequent interest payments are a welcome contributory to the reduction of that country's indebtedness during the whole tenure of the loans. The converse is true in regard to the borrowing country, the indebtedness of which is correspondingly decreased on the issue of loans, but increased every time interest payments fall due.

Finally, as will be seen, most of these loans are repayable by drawings, and the effect of each of these drawings will be similar to that occasioned by the export of interest coupons: for, if England be the lending country, she will export the drawn bonds in exchange for the remittance of their value by Japan, the borrowing nation.

The following are the details of the loans which Japan has raised on foreign markets, together with the approximate amount outstanding in each case at the end of July, 1923.

#### **4 per cent. Sterling Loan of 1899.**

For the purpose of meeting the expenditures required for the construction of railways, improvement of the existing Government railways, construction of railways in Hokkaidō, steel manufacture, and extension of the telephone system, and in accordance with the provisions of the Railway Construction Law (Law No. 4, 1892), the

Public Undertakings Loan Regulations (Law No. 59, 1896), the Hokkaidō Railway Construction Law (Law No. 93, 1896), and Law No. 101, 1899, the Government issued in London in June, 1899, a loan of £10,000,000, at an issue-price of £90 per £100 face-value, the principal of which is, after being left unpaid for ten years from January, 1899, to be redeemed at convenience by means of drawings, in forty-five years.

The amount outstanding on 31st July, 1923 was : Yen 92,748,500 at 2s. per yen, (say £9,274,850).

#### **4 per cent. Sterling Loan of 1905.**

With the object of consolidating and redeeming the fourth and fifth issues of the Exchequer Bonds, the Government raised in November, 1905, a 4 per cent. Sterling Loan of £25,000,000 in London, Paris, New York, and Germany, in accordance with the provisions of Law No. 1 of 1904 and Law No. 12 and Imperial Ordinance No. 241 of 1905. Its issue-price was £90 per £100 face-value, and the principal is to be left unpaid until the 31st December, 1920; and thereafter to be redeemed at convenience by means of drawings by the 1st January, 1931.

Outstanding on 31st July, 1923, Yen 244,068,361 at 2s. per yen (say £24,406,836).

#### **4½ per cent. Sterling Loan of 1905.**

At the time of the war with Russia, the Government issued 6 as well as 4½ per cent. Sterling Loans for the purpose of meeting the extraordinary expenses connected with that war. The former has already been consolidated and redeemed.

The first 4½ per cent. Sterling Loan of £30,000,000 was raised in London and New York in March, 1905, in accordance with the provisions of Law No. 12 and Imperial Ordinance No. 78 of the same year. Its issue-price was £90 per £100 face-value, and the principal is to be left unpaid until the 14th February, 1910, and thereafter to be redeemed at convenience by means of drawings by the

15th February, 1925; and the service of this loan is secured by the first charge upon the net profit of the Tobacco Monopoly.

The second 4½ per cent. Sterling Loan of £30,000,000 was raised in London, New York, and Germany in July, 1905, in accordance with the provisions of Imperial Ordinances Nos. 194 and 195 of the same year. Its issue-price was £90 per £100 face-value, and the principal is to be left unpaid until the 9th July, 1910, and thereafter to be redeemed at convenience by means of drawings by the 10th July, 1925; and the service of this loan is secured by the second charge (next in order of priority to the first loan) upon the net profit of the Tobacco Monopoly.

Outstanding on 31st July, 1923, 1st issue—Yen 174,156,299 (£17,415,630); 2nd issue—Yen 177,125,813 (£17,712,581).

### **5 per cent. Sterling Loan of 1907.**

For the purpose of consolidating and redeeming the 6 per cent. Sterling Loans of £22,000,000 issued in 1904, the Government raised in March, 1907, a 5 per cent. Loan of £23,000,000 in London and Paris, in accordance with the provisions of Law No. 1 of 1904, Law No. 12 of 1905, and Imperial Ordinance No. 23 of 1907. Its issue-price was £99 10s. per £100 face-value, and the principal is to be left unpaid until the 11th March, 1922, and thereafter to be redeemed at convenience by means of drawings by the 12th March, 1947.

The proceeds of this loan were applied to the redemption of the 6 per cent. Sterling Loans of £22,000,000.

Outstanding on 31st July, 1923: Yen 224,543,500 at 2s. per yen (say £22,454,350).

### **4 per cent. Loan (issued in Paris).**

The 4 per cent. Loan was issued in Paris with the same object as the 4 per cent. loan issued at home; a portion of

its proceeds was appropriated for use as fund for the redemption of domestic loan bonds which were exported abroad, and another portion for use as fund for the redemption of the 5 per cent. loan bonds in circulation at home. The amount of issue was 450,000,000 francs; the rate of interest 4 per cent., payable on the 15th May and November every year; the issue-price was 95 francs 50 centimes; and the loan to remain unredeemed for ten years, after which it is to be redeemed within fifty years.

Outstanding on 31st July, 1923: Yen 173,670,000 at 2s. per yen (say, £17,367,000).

#### **4 per cent. Sterling Loan of 1910.**

The 4 per cent. Sterling Loan of 1910 was raised for the same purpose as the 4 per cent. loan raised at home and the 4 per cent. Franc Loan of 1910 raised in France, and was employed as fund for the redemption of the endorsed War and 5 per cent. Loans in circulation in London. The amount of issue was £11,000,000; the rate of interest 4 per cent., payable on the 1st June and December; the issue-price was £95; and the loan to remain unredeemed for ten years, after which it is to be redeemed within fifty years; and as the object of the loan was the redemption of the endorsed loans above referred to, the latter loan bonds were accepted in place of cash when the former loan was subscribed for.

Outstanding on 31st July, 1923: Yen 107,392,805 at 2s. per yen (say, £10,739,280).

Total Foreign Loans outstanding on 31st July, 1923: Yen 1,193,705,278—say, at 2s. per yen = £119,370,528.

#### **Coinage.**

The present coinage system is based on the Coinage Law, issued in 1897, which established the gold monometallic system. Its principal points may be summarised as follows—

1. The coinage unit is 2 fun (0.75 grammes) of pure gold, that is, one-half of the former gold unit.

2. The standard gold coins are of three denominations, namely, 5 yen, 10 yen, and 20 yen; the former gold coins pass for double their nominal value.

3. The subsidiary silver coins are of two denominations, namely, 20 sen, and 50 sen; the former 5-sen, 10-sen, 20-sen, and 50-sen silver pieces are allowed to circulate.

4. The other subsidiary coins are the nickel 5-sen and 10-sen pieces and the bronze 1-sen and 5-rin pieces; the former 5-sen nickel as well as 2-sen, 1-sen, 5-rin, and 1-rin copper pieces are allowed to circulate.

5. The fineness and the weights of the coins prescribed in the Coinage Law are as follows—

(a) FINENESS.

Gold coins	pure gold	900	copper	100
Silver coins	fifty sen	pure silver	800	200
	twenty sen	"	720	280
Nickel coins	nickel	250	"	750
Bronze coins	copper	950	tin 40	zinc 10

(b) WEIGHTS.

Gold coins.

Denomination.	Weight.
	<i>Momme</i> <i>gramme</i>
20-yen pieces . . . .	4.4444 (16.6666)
10-yen pieces . . . .	2.2222 (8.3333)
5-yen pieces . . . .	1.1111 (4.1666)

Subsidiary coins.

Denomination.	Weight.
	<i>Momme</i> <i>gramme</i>
50-sen silver . . . .	1.8000 (6.7500)
20-sen silver . . . .	0.8000 (3.0000)
10-sen nickel . . . .	1.0000 (3.7500)
5-sen nickel . . . .	0.7000 (2.6250)
1-sen bronze . . . .	1.0000 (3.7500)
5-rin bronze . . . .	0.5600 (2.1000)

## Paper Notes of Small Denomination.

In order to make up the deficiency of subsidiary silver coins caused by the war, the paper notes of small denomination, namely, sen 50, sen 20 and sen 10, were issued as substitute for silver in accordance with Imperial Ordinance No. 202 promulgated on the 29th. October, 1917. The total issue of these small notes in circulation at the end of October, 1923, was yen 80,000,000,

### **Convertible Bank Notes.**

In May, 1884, the Convertible Bank Notes Law was passed; it provided for the issue by the Bank of Japan of bank notes which were to be convertible into silver; but upon the adoption of the gold standard in 1897, the existing bank notes became convertible into gold. The principal points may be summarised as follows—

1. The Bank of Japan is required to hold as conversion reserve against the issue of notes gold and silver coins and bullion to the same amount as that of the notes issued; and the total value of silver coins and bullion must not exceed one-fourth of the entire conversion reserve.

The Bank of Japan, may, in addition to the notes specified in the preceding paragraph, specially issue bank notes to an amount not exceeding yen 120,000,000 on security of Government loan bonds, treasury bills, and other reliable securities or commercial bills.

Should it be deemed necessary, on account of the condition of the market, to increase the amount of money in circulation, bank notes may, in addition to those specified in the preceding two paragraphs, be issued with the permission of the Minister of Finance on security of Government loan bonds, treasury bills, and other reliable securities or commercial bills; in such case an issue tax must be paid at the rate of not less than 5 per cent. per annum of the amount so issued.

2. The bank notes are of seven denominations, namely, yen 1, yen 5, yen 10, yen 20, yen 50, yen 100, and yen 200.

### **Currency System of Taiwan.**

As regards the currency system of Taiwan, up to October, 1908, recognition was given to the circulation at the market price in gold of the silver yen similar to that in circulation in Japan Proper until the revision of the Coinage Law in 1897; but the exchange of silver was brought to a conclusion at the end of April, 1909, and in the same month of 1911, the Coinage Law of the Empire was brought into operation in the island, so that the system

in Taiwan is now absolutely identical with that in force in Japan Proper.

The Bank of Taiwan issued at first bank notes convertible into silver yen; but these notes were, upon the reform of the currency system, withdrawn from circulation by April, 1909. In June, 1904, the bank was allowed to issue bank notes convertible into gold coins, holding as conversion reserve gold and silver coins and bullion to the same amount as that of the notes issued; it may further issue notes to the amount of yen 20,000,000 on security of reliable securities. Should it be necessary to issue notes over and above the amounts just mentioned, the permission of the Government must be obtained and an issue-tax of not less than 5 per cent. must be paid in respect of the excess issue.

### **Chōsen (Korea).**

A few words may be added about the currency system of Chōsen.

The coinage system of Chōsen had since the ancient times undergone many changes; and after the annexation of the country in August, 1910, the minting of coins under the Coinage Regulations of the old Korean Government was suspended with a view to the unification of its coinage with that of the Empire; such of the current coins as came into the Government Cash Office were withdrawn from circulation and sent to the Mint to be melted down; and when the amount in circulation had considerably diminished, the Coinage Regulations of the former Korean Government were replaced on 30th March, 1918, by the Imperial Coinage Law and at the same time the old Korean coins were permitted to be used until the end of December, 1920.

The amount of current coins and Government Notes in circulation in Chōsen at the end of 1921 was as follows—

	<i>Yen.</i>
Imperial Coins . . . . .	8,427,873
Auxiliary-Note issued by Imperial Government . . . . .	400,630



The amount in circulation of bank notes issued by the Bank of Chōsen under the Bank of Chōsen Law was yen 101,278,789.

The following gives the amounts of the old Korean coins which were withdrawn from circulation during the period from 1905 to the end of 1921—

	<i>Yen.</i>									
Gold	.	.	.	.	.	.	.	.	.	1,944,500
Silver	.	.	.	.	.	.	.	.	.	4,086,235
Copper	.	.	.	.	.	.	.	.	.	9,981,228
Bronze	.	.	.	.	.	.	.	.	.	238,606
Cash	.	.	.	.	.	.	.	.	.	6,204,140

### Bank Notes.

Bank notes were first issued in 1902 by the Dai-Ichi Ginkō; and their use in public and private transactions was officially recognised in 1905. Their denominations were yen 10, yen 5, yen 1, sen 50, sen 20, and sen 10; but in 1907, upon the adjustment of the currency and issue of new subsidiary silver coins, the issue of notes of sen 50 and lower denominations was suspended. In 1909, upon the establishment of the Bank of Korea, the rights and obligations of the Dai-Ichi Ginkō regarding the issue of bank notes were taken over by the new bank; and after the annexation of Korea, the bank changed its title to the Bank of Chōsen and has continued to issue bank notes. The issue has greatly increased since the annexation and the amount issued stood at the end of 1921 at yen 136,360,500.

The following are the principal provisions relating to the Bank of Chōsen notes in the Bank of Chōsen Law—

The bank notes issued by the Bank of Chōsen may circulate unrestrictedly within the jurisdiction of the Government-General of Chōsen;

The notes of the Bank of Chōsen shall, at any time during business hours, be exchanged at the head and branch offices into gold coin or convertible notes issued by the Bank of Japan;

The Bank of Chōsen shall, against the issue of its

bank notes, provide a reserve of the same amount, consisting of gold coins, gold and silver bullion, and convertible notes of the Bank of Japan; silver bullion, however, shall not exceed one-fourth of the total reserve;

The Bank of Chōsen may, in addition to the above, specially issue bank notes to the value not exceeding yen 50,000,000 on the security of national loan bonds and other reliable bonds and commercial bills;

If, in addition to the cases provided for in the preceding two clauses, it should be deemed that an issue of bank notes is required by the condition of the market, such bank notes may, with the sanction of the Governor-General of Chōsen, be issued on the security of national loan bonds and other reliable bonds and commercial bills; in such case an issue-tax shall, by order of the Government, be paid at a rate of not less than 5 per cent. per annum on the amount so issued.

In view of the serious inconvenience felt in commercial transactions in Manchuria owing to the scarcity of subsidiary coins based on gold monometallism, small notes have been issued since 12th June, 1916, in conformity with the bank note regulations as to issue arrangement and so forth. The total issue reached yen 1,251,059 at the end of 1921.

### **Japanese Weights and Measures.**

The table on p. 232 shows the weights and measures of Japan and their English, American, French, and German equivalents.

# JAPANESE WEIGHTS AND MEASURES

The table shows the weights and measures of Japan and their English, American, French, and German equivalents

JAPAN.	GREAT BRITAIN.	UNITED STATES OF AMERICA.	FRANCE.	GERMANY.
<i>Ri</i> . . . . .	2-44030 Miles	2-44029 Miles	3-92727 Kilomètres	3-92727 Kilometer
<i>Ri (marine)</i> . . . . .	1-15152 Miles	1-15151 Miles	1-85318 Kilomètre	1-85318 Kilometer
<i>Square Ri</i> . . . . .	5-95505 Square Miles	5-95501 Square Miles	15-42347 Kilomètres Carrés	15-42347 Quadrat-kilometer
<i>Chō</i> = 10 <i>Tan</i> = 3,000 <i>Tsubo</i>	2-45064 Acres	2-45062 Acres	0-991735 Hectare	99-17355 Ar.
<i>Tsubo</i> . . . . .	3-95369 Square Yards	3-95367 Square Yards	3-30579 Centiares	3-30579 Quadrat-meter
<i>Koku</i> = 10 <i>To</i> = 100 <i>Shō</i>	4-96005 Bushels	47-65389 Gallons (Liquide) 5-11902 Bushels (Dry)	1-80391 Hectolitre	1-80391 Hektoliter
.. (Capacity of vessels)	10 of one Ton	10 of one Ton	10 de Tonne	10 Tonne
<i>Kwan</i> = 1,000 <i>Momme</i>	8-26733 lbs. (Avoir.) 10-04711 " (Troy)	8-26733 lbs. (Avoir.) 10-04711 " (Troy)	3-75000 Kilogrammes	3-75000 Kilogramm
<i>Kin</i> = 160 <i>Momme</i>	1-32277 lbs. (Avoir.) 1-60754 " (Troy)	1-32277 lbs. (Avoir.) 1-60754 " (Troy)	0-60000 Kilogramme	0-60000 Kilogramm
<i>Momme</i> . . . . .	2-11644 Drams 2-41131 Dwts.	0-13228 Ounce (Avoir.) 0-12057 Ounce (Troy)	3-75000 Grammes	3-75000 Gramm

## CHAPTER XVI

### SIAM

#### PAST AND PRESENT CURRENCY : BANKING AND EXCHANGE —FOREIGN TRADE—THE CALENDAR

It had been the original intention of the writer to place immediately after the section on "Japan" the chapters dealing with Hong-Kong and China; but, on consideration, it seemed preferable to conclude our examination of those Eastern countries now on a gold standard or some modification of it before discussing the ever-burning silver question. We, therefore, propose to treat in four short chapters of the currency, finance, and exchange of Siam, Java, French Indo-China, and the Philippines.

Strictly speaking, Siam should have followed the chapter on the "Straits Settlements," since about 45,000 square miles of its territory is actually in Malaya; but we believe the present arrangement will be more suitable for those whom this book is meant to serve.

The Kingdom of Siam has a number of quaint designations, the most common of which is Thai, or Muang-Thai (i.e. the Land of the "Free"); but it is also known as the Land of the White Elephant, and the Land of the Yellow Robe. The area of the kingdom is 484,128 square kilometres (inclusive of that portion in the Malay Peninsula); and the population, according to the Census of 1912, was 8,266,408, or 17 per square kilometre. The estimated population at the end of 1921 was 9,121,000.

On the 31st March, 1921, the total National Debt of Siam amounted to £7,312,560, that is, approximately 16s. per head of population. The country at the present time is in that favoured position of having an excess of revenue over expenditure, and, in consequence, taxation is not very heavy. A part of the State income is derived from

a tax on lotteries and gambling houses; but the undesirability of this method of raising funds for the Exchequer is now recognised, and may shortly be suppressed. The return from taxes, apart from Customs dues, as at 31st March, 1920, was—

	<i>Ticals.</i>
Direct Taxes . . . . .	16,737,007
Other Taxes . . . . .	45,511,679
Fees, Licences, etc. . . . .	6,542,198
	<u>68,790,884</u>

(= at 13 ticals to £1—£5,291,606)

giving an incidence of 11s. 7d. per head of population.

Siam, in common with most of the other countries we have examined, for many years had experienced all the disadvantages attendant upon a depreciating silver currency. She had seen her revenue expanding, but had been able to perceive few, if any, of the benefits which might naturally have been expected to accrue from such a satisfactory financial feature. The root of the trouble was silver. Her currency from the reign of King Mongkut to November, 1902, was on a purely silver basis, with the tical<sup>1</sup> as the monetary unit. This standard coin had a fixed ratio to the Mexican dollar of 60 to 100—a ratio which will be more intelligible to the reader if we say that the par value of the tical was equivalent to three-fifths of the Mexican dollar. As time went on, its purchasing power diminished in proportion to the steady but sure fall in the gold value of silver or, as it was understood, of the Mexican dollar; in fact, so rapid was the depreciation, that by November, 1902, more than 21 ticals had to be surrendered for £1 sterling. The effect of this continued fall in silver soon became painfully apparent, not only to the Siamese trading and commercial community, but also to the Siamese Government, which, faced with a heavily depreciated unit of currency, found itself in the position of having to pay larger and larger sums in terms

<sup>1</sup> A photograph of an old Siamese tical will be found facing page 388.

of the native currency whenever indebtedness with gold-using countries fell due for settlement. Something had to be done; and, in the first instance, longing eyes were cast upon possible salvation by means of a considerable increase in taxation: but this course, very wisely, was abandoned; and, instead, the Government decided to close its mints to the free coinage of silver. The metal for many years had been imported into Siam in the shape of British and Mexican dollars, which, under a legal enactment, could be tendered by the importers or their agents to the mint, where they were exchanged into native currency at the rate of 5 ticals for 3 dollars. As far as can be ascertained, very little bar silver was imported, consequently it was the practice of bankers and merchants who were under the necessity of procuring Siamese currency to import dollars and send them straight to the Mint to be exchanged into local currency at the fixed rate of exchange—60 dollars to 100 Siamese ticals.

This arrangement came to an end with the closing of the Mints on the 27th November, 1902; and at the same time the Government publicly announced in all the Siamese papers that the Royal Mint would no longer issue an unlimited amount of ticals to the public for gold, silver, or copper, whether presented in the shape of bullion or coins. For the future, it was agreed that any person desirous of obtaining ticals from the Treasury could do so by depositing the gold equivalent in London with the Government bankers, at a rate of exchange to be ascertained upon application. As a matter of fact, at the same time as it closed its mints to the free coinage of silver, the Government had fixed a ratio of 17 ticals to £1 as the rate at which the Siamese Minister in London would be prepared to issue demand drafts on Bangkok against pounds sterling in London; but as the exchange banks in Siam had been quoting, immediately prior to this, 21½ ticals to £1, this action of the Siamese authorities paralysed business for a time, as the banks themselves were liable

for very large amounts. Some modification had, therefore, to be made; and as it was subsequently decided that 20 ticals to £1 would be a workable limit, that was the rate at which the first transfers under the new scheme were made. An arrangement was also come to whereby the banks were empowered to sell drafts on London at 20 ticals per £1 sterling and to buy at ticals 19·25 to £1, and a tacit understanding was entered into between the Government and the banks that the exchange value of the currency should not be increased unless silver appreciated.

This was in the early days of December, 1902; and, as it turned out, there was no need to maintain this somewhat arbitrary rate, for almost immediately the tone of the market became more normal; and on the 18th December it was found possible to fix bank rate at 20 ticals to £1 sterling, which enabled the Siamese Treasury a few days later (on 22nd Dec., 1902) to alter the exchange value of the tical, first to 19½, then—a day later—to 19½ ticals to £1. The price of the tical remained at this figure till the 3rd March, 1903, when the Treasury, finding that easier monetary conditions were prevailing, not only in Siam, but in the neighbouring Malay States and Singapore where the value of the Mexican dollar had gone up considerably—deemed it advisable to try the effect of a further increase in the exchange value of the tical. The price was accordingly raised from 19½ to 19¼ ticals, which, as the reader will observe, means that fewer ticals were given in exchange for the British sovereign. The experiment was an immediate success; and the Government followed up their action by raising exchange on 5th March to 19 ticals, and on 12th March, 1903, to 18¾ ticals to the £1. The local banks followed suit and, contrary to the expectation of the pessimists, no evil results were apparent.

However, it was too much to expect the new currency scheme to go along without a hitch and, as if actuated by a malevolent fate, an enormous increase of imports into

Siam coincided with a falling off in exports; and towards the end of April, 1903, with a one-sided trade to finance, the exchange banks found themselves obliged to abandon their attempt to maintain the official rate fixed by the Government; and, on the basis of their operations, the tical fell from  $18\frac{1}{4}$  to  $19\frac{7}{5}$  to £1. But this set-back was merely transitory. Silver, which had fallen in price, commenced to recover; and the Siamese Government, not slow to take advantage of its effect on the gold value of the tical, on the 22nd July, 1903, was able to raise the rate to  $18\frac{1}{4}$ . In the meantime, it decided to commence to purchase and import bar silver for subsequent coinage operations at the Mint; and, as these silver purchases to some extent strengthened the silver market and at the same time kept up the value of the silver tical, it was soon found advisable to make further changes in the rate of exchange. Each week in August, 1903, the value of the tical was altered: on 5th August it was raised from  $18\frac{1}{4}$  to 18; on 12th August to  $17\frac{3}{4}$ ; on 24th August to  $17\frac{1}{2}$ ; and on 27th August the price was fixed at  $17\frac{1}{4}$  ticals for £1. At this period the banks managed to keep pace with these movements, though their rates of exchange did not alter so quickly.

The Government, of course, had in view the adoption of a Gold Exchange Standard; and, with that object always before it, every opportunity was taken to raise the rate of exchange by easy stages. With the country in somewhat of a primitive state in the matter of currency, careful progression was of vital importance; and after increasing its selling rate on 25th September, 1903, to 17 ticals to the £1 sterling, no other alteration was made till 9th February, 1904, when it became possible again to advance the price to 16-17 ticals. Then, acting on the principle *le mieux est l'ennemi du bien*, the Siamese Government decided to leave things as they were; and no further alteration took place in the rate until November, 1905, when time and circumstances being propitious, the



opportunity was taken to fix exchange at 16 ticals to £1. A few months later the Government notified its willingness to sell drafts on London at exchange of from 1s. 2½d. to 1s. 3d. per tical; and it seems to have been the impression that, in making the value of the Siamese unit of currency effective at this exchange, the Government had reached the points between which further variations in the rate of exchange would be henceforth maintained. But that was not so. As indicated in one of the Bangkok publications<sup>1</sup> in August, 1906, on the occasion of a temporary scarcity of ticals due to the replacement of the dollar by the tical in Monthon Puket, it appeared feasible for the Treasury again to raise the selling price of the tical, and this it did. Exchange was fixed at 15 ticals to £1 and, by taking this step, the Siamese made their coin equal in value to the Indian rupee.

Some three months later, owing to extensive purchases by the Indian Government, the price of silver on the London market commenced to rise; and, to cut a long story short, on 2nd November, 1906, the Siamese Treasury, by raising the selling price of its standard coin to 13½ for £1, gave the tical an exchange value of 1s. 6d.

Subject to the ordinary variations, this rate appears to have been fairly well maintained down to 1908; and as it was then found quite apparent that the Government had succeeded in bringing about the transition from a purely silver standard of currency to one closely allied with the gold standard, the Rubicon was crossed, in 1908 the gold standard became law, and the Government finally fixed as its official selling rate the exchange of 13 ticals to the £1 sterling.

It was, we believe, the original intention of the Siamese Government to coin, under its Gold Standard Law of 15th November, 1908, a gold dos or 10 tical gold piece 900 fine (900 parts pure gold and 100 parts copper), but, so far, this coin has not been issued; and at present the

<sup>1</sup> *Directory of Bangkok and Siam*, 1914.

monetary unit is the silver tical, which, until difficulties arose during the war, weighed 15 grammes 900 fine, that is to say, the tical contained 900 parts pure silver to 100 parts of copper.

At the fixed rate of 13 ticals to £1, the exchange value was approximately 1s. 6½d.; and, as will be seen from the following rates, in recent years exchange has been kept well within that limit—

During	1909-10	the average rate for demand drafts was				1s. 6½d.
"	1910-11	"	"	"	"	
"	1911-12	"	"	"	"	1s. 6¼d.
"	1912-13	"	"	"	"	1s. 6¾d.
"	1913-14	"	"	"	"	1s. 6⅞d.
"	1914-15	"	"	"	"	1s. 6½d.
"	1918-19	"	"	"	"	1s. 6⅞d.

We give the bank quotations because, in ordinary times, exchange, as quoted by the banks in Bangkok, tends to fluctuate round the rate fixed by the Government; and, although bank rate varies, it should be noted that the idea was to base exchange on the exigencies of local trade instead, and not to allow it to be reliant on and at the mercy of the price of silver on the London market.

The war, however, caused an unprecedented demand for silver, and Siam, like so many other countries, was forced to adopt other measures. At first it was enacted that parts of the Gold Standard Act should be repealed, and that the subsidiary coins provided for by that Act should be reduced in fineness to contain 650 parts fine silver and 350 parts copper. It was also provided that gold coins and one tical pieces should be legal tender to any amount. Further, as a temporary measure it was decreed that 2 salungs (or ½ tical pieces) should be unlimited legal tender. The one salung pieces were legal tender only up to the value of 5 ticals, while nickel and bronze coins were to be legal tender up to 1 tical. This amendment to the Gold Standard Act was issued on 2nd July, 1919.

Under the provisions of the Gold Standard Law, the

Government has the sole power to mint and issue currency, but any person may tender gold bullion to the Ministry of Finance for the purpose of buying coin; and the quality and fineness of the gold and the minimum quantities which may be tendered are notified by the Finance Minister. Persons tendering gold naturally desire to take in exchange the particular local currency required for their use in the Kingdom of Siam; if, however, gold coins are called for, the law provided, prior to 1919, that the Ministry of Finance would issue them at the rate of 2,680 ticals for each 100 ticals weight (1,500 grammes) of pure gold tendered. Even then there was no obligation on the part of the Government to hand over the gold coins immediately on receipt of gold bullion and, when necessary, payment was not made until after sufficient time had elapsed to permit of the coinage of the gold tendered. Nevertheless, it should be noted that when a banker or other person was prepared to accept in exchange for his gold any money which was legal tender, without insisting on any particular denomination, the Ministry of Finance would always give him the same rate as that mentioned above, viz., 2,680 ticals for every 100 ticals weight of pure gold tendered, *immediately after the gold has been assayed.*

The Government, as we have stated, did not issue the gold 10-tical piece provided for under the law of 1908; instead, it decreed that the 1-tical silver piece should be legal tender to any amount, and at the same time gave it the gold value of 55·8 centigrammes of pure gold. But, in order to assist in the maintenance of exchange at the fixed rate of 1s. 6½d. (13 ticals to £1), the Ministry of Finance was prohibited from issuing the 1-tical piece in exchange for gold whenever the gold value of its silver content was higher in Bangkok than the cost of 55·8 centigrammes of pure gold.

However, on 4th September, 1919, owing to the continued high price of silver it became expedient to raise the gold

exchange value of the tical in order still further to protect the silver coinage in circulation in Siam. Consequently, Section 1, Sub-sec. 3, of the Gold Standard Act was repealed, and in substitution the theoretical unit of the Siamese monetary standard, the tical, was fixed as 61 centigrammes of pure gold. This gave the silver tical a value equal to 61 centigrammes of pure gold, and the silver two-salung pieces ( $\frac{1}{2}$  tical) as a temporary measure, now have a value equal to 30.5 centigrammes of pure gold. The tical is divided into one hundred satangs.

A further notification was issued on 4th September, 1919, dealing with that part of the Gold Standard Act which provided that any person might tender gold bullion to the Ministry of Finance and receive in exchange gold coins, or any money which for the time being was legal tender, at the rate of 2,459 ticals for every 100 ticals weight (1,500 grammes) of gold tendered. As it was not expedient in September, 1919, to receive gold in Bangkok for coinage, that particular section of the Act was temporarily suspended, and it was notified that until further notice the Ministry of Finance would continue to receive gold abroad and would issue in Bangkok legal currency in exchange at the rate of 2,434 ticals for every 100 ticals weight (1,500 grammes) of pure gold received. In other words, the exchange was to be at 11.88 ticals for £1 sterling. The minimum amount of each transaction was fixed at £5,000, and payment was to be made by telegraphic transfer to such bank or individual as the Minister of Finance indicated.

The actual effect of this amendment of the Gold Standard Act was to establish a new mint par for the tical of 61 centigrammes of pure gold, that is, 1s. 8d. per tical, or 12 ticals to £1. The gold export and import points were consequently fixed at 1 per cent. above and below the mint par, or 12.12 and 11.88 to £1 respectively. The combined effect of the amendments of 2nd July and 4th September, 1919, to the Gold Standard Act was to render

the nominal and intrinsic values of the new 2 salung and 1 salung coins equal when silver reached 59d. per standard ounce.

The rise in the rate of exchange was necessary, as we have pointed out, to protect the silver subsidiary coinage.

As silver continued to rise in price it became necessary to take further steps to protect the silver currency. Accordingly, an amendment to the Gold Standard Act was promulgated on 4th October, 1919, suspending the sections of the Act under which the mean rate of exchange had been fixed at 1s. 8d. per tical, and authorising the Minister of Finance to issue legal currency in Bangkok, in exchange for gold received abroad, at such amount, not exceeding ticals 11·88 per £1 sterling, as might be necessary to protect the silver coinage the mintage of which was provided for in the amending Act of 2nd July, 1919.

On the same date the Minister of Finance notified in the *Gazette* that the rate of exchange for the issue of legal currency in Bangkok against gold paid abroad would be ticals 10·89 per £1 sterling.

Owing to further rises in the price of silver, the Minister of Finance, by similar notifications, dated 14th and 26th November, 1919, announced that the rate for the issue of legal currency would be ticals 9·90 and ticals 9·14 per £1 sterling, respectively.

Silver had, however, not reached its zenith, and in January, 1920, it became necessary to consider what further steps should be taken to protect the silver coins. The alternatives were either to raise exchange again, or to reduce further the silver content of the subsidiary coinage. The latter course was decided on, and by an amendment to the Gold Standard Act, issued on 16th January, 1920, it was prescribed that the fineness of the 2 salung and 1 salung pieces should be reduced from 650/1000 to 500/1000. This reduction made the coins safe until silver reached 100d. per ounce standard. After rising to a height of 89½d. per oz. standard in the following

month, the price of silver, fortunately, began to fall, and by August had so far receded as to render it unnecessary to continue minting coins of such low silver content. By an amending Act, issued on 19th August, 1920, the Act of 16th January, 1920, was accordingly repealed, thus re-establishing the fineness of 650/1000.

Some of the principal features of the Siamese system may not appear so striking as in the case of those of the other currency systems we have so far dealt with; but it will, we think, be recognised that, in adopting a modification of the full gold standard, Siam has satisfactorily proved her ability to give a constant value to the tical, the fluctuations of which in recent years have been reduced to a minimum. That is an important factor from the trade point of view, and the banking and commercial community has not been slow to appreciate the benefits arising from the more settled state of affairs now existing; but, as with the other nations which have strengthened their exchange position, Siam has also reaped important internal benefits from the placing of the currency of the country on a stable basis.

Now, so far, we have not touched on the subject of reserves, but, like India, that is a question which Siam has had to tackle. A special Reserve Fund for the maintenance of the stability of the rate of exchange between Siam and foreign countries was provided for in Section 23 of the Act of 1908, in which it is laid down that the Reserve shall consist of—

“(1) The sum of ticals 12,000,000, which, to commence with, were to be transferred from the Treasury Reserve or other sources allocated by the Government for the purpose. If considered expedient, this sum may be increased.

“(2) The gross profit resulting from coinage operations (i.e. without any deduction for expenses).

“(3) Any other sources of income or profit which may be held to emanate from the special reserve.”

Then, in Section 25, it was ordained that any portion of the fund which it may be found necessary to remit and retain abroad, shall be deposited in such banks, or invested in such foreign Government securities, of first-class standing as the Minister of Finance may select.

“That portion of the Gold Standard Reserve which is kept in Siam consists of gold coins and one-tical pieces, or gold and silver bullion intended for coinage; and the only purposes for which these silver ticals so held can be withdrawn are: (a) for exchange into gold at the fixed rates; (b) for the purchase of silver bullion for coinage; (c) for the purchase of transfers payable to the Government in gold abroad.”

As we have already detailed the variations in the course of exchange during the first few years of the working of the gold standard in Siam, there is no need to describe all the operations in connection with the Reserve, but it may be of general interest to run over briefly the operations which have taken place comparatively recently.

We will take the year 1913 as a convenient starting-point.

In May, 1913, the silver portion of the Reserve Fund became exhausted and, in consequence, all further demands on the Government from the banks for local currency had to be met out of the Treasury balances. What the Siamese Government did, then, was to cause the sterling remittances made by the banks in payment for this local currency to be credited to the Treasury account in London, and held there at the disposal of the Government for general purposes. This state of affairs continued until November, 1914, when, owing to a diminution in exports and the consequent absence of cover against their sales abroad, the banks were practically compelled to resort to the Government for the purchase of sterling remittances. The amount so purchased, however, was only the trifling one of £80,000, and this the Government met out of the Gold Standard Reserve Fund. The position subsequently

improved; and by February, 1915, the whole £80,000 had been paid back again to the Fund, which was then held entirely in gold. From February, 1915, and for some months afterwards, the banks continued to sell sterling; and, as the tical portion of the Gold Standard Fund was exhausted, their demands for currency were, as on the former occasion, met from the Treasury balances, the sterling remittances again being credited to the Treasury account in London. The total amount so sold was approximately £113,000 (1,468,000 ticals). In the financial year 1919-20, the banks again had to resort to the Government, which helped them by selling sterling in London against ticals received in Bangkok to the extent of £1,854,980. On the 31st March, 1919, the Gold Standard Reserve Fund of Siam was all held in sterling, and amounted to £1,290,672, made up as follows—

	£	s.	d.
At Call in Banks . . . . .	894,943	-	-
Fixed Deposits . . . . .	250,000	-	-
Foreign Government Securities . . . . .	145,729	-	-
	<hr/>		
	£1,290,672	-	-

We now come to the currency note question.

Paper currency has for many years circulated in Siam, but the only issues up to 1902 were those of three foreign banking institutions—the Banque de l'Indo-Chine; the Chartered Bank of India, Australia and China, and the Hongkong and Shanghai Banking Corporation—each of which had introduced bank notes into the country. Strictly speaking, the notes of none of these banks were legal tender, but, in practice, they were accepted as such by the public and are understood to have enjoyed considerable popularity. In September, 1902, however, the Government came to the conclusion that it was expedient in the national interests for notes to be issued under the aegis of the State, and arrangements were consequently made for the immediate issue of convertible notes in denominations of 5, 10, 20, 100, and 1,000 ticals. The



control of the note circulation is vested in the hands of a Paper Currency Department, which, in turn, is responsible to the Ministry of Finance.

The issue of paper currency, consisting of notes payable in cash on demand, was a wise step on the part of the Siamese Government: it was, in fact, the only way by which it could hope to compete with the issues of the banks; and, as in the first instance, no attempt whatever was made to give the Government paper a forced circulation, the natives immediately reposed confidence in the notes, with the result that the Government's scheme was a gratifying success. In the first year the circulation of the notes was approximately 500,000 ticals per month, and the total in circulation at the end of the year exceeded 6,000,000 ticals. The notes have continued to find favour with the Siamese public; and since 1903, notwithstanding the fact that in the early stages they were in competition with the notes of the banks, there has been a steady increase in their circulation, which, in 1904, was returned at ticals 7,310,935, and at the end of the Siamese financial year in 1915 had reached the satisfactory total of ticals 31,435,310. A few bank notes are still seen occasionally, but for all practical purposes one may safely say that the circulation of the Government currency notes has now replaced that of the banks.

The Siamese paper currency issue is fully covered by cash held in the vaults of the Paper Currency Department; but, by law, it is provided that 25 per cent. of the coin received for the notes issued may be invested in such securities as the Minister of Finance, under the authority of the King of Siam, may select. At the end of August, 1916, the value of the notes in circulation was ticals 42,295,085, against which was held—

In Coin	.	.	.	Ticals	21,933,866.26
In Investments	.	.	.	„	20,361,218.74

On 31st March, 1919, the note circulation had increased to 113,766,985 ticals.

In company with most other nations, Siam had to deal with currency problems arising out of the Great War. On 8th February, 1917, it was stated in the official *Gazette* that, owing to the great rise in the value of the notes in circulation and the consequent locking up of a greatly increased number of silver ticals as a reserve against the notes, it was desirable to provide means whereby a portion of the amount so held by the Paper Currency Department in silver ticals could be made available for the purposes of the Siamese Treasury at times when the export trade was brisk and Treasury balances were found to be falling. Power was, therefore, taken to amend the Paper Currency Act; and an amendment, called the "Paper Currency Act (Amendment) B.E. 2459," was issued. The effect of this was to repeal certain sections of the former Act, and to authorise the Siamese Minister of Finance to maintain a reserve in silver ticals in Siam equal to 25 per cent. of the notes in circulation, instead of 50 per cent. as formerly ordained. Authorisation was given for the Minister to withdraw part or the whole of the remaining 25 per cent. and to hold it in gold coin or bullion abroad, or in silver bullion either abroad, or in transit to Siam, or in course of minting into silver ticals. He was also given power to withdraw from the reserve, for investment, an amount not exceeding 50 per cent. of the notes in circulation.

The actual date of this Proclamation was 3rd February, 1917. It proved to be only a temporary expedient, however; and, owing to the continued difficulties in acquiring bullion, it became necessary in August, 1917, to promulgate a further Amendment to the Paper Currency Act to the effect that as it was then found impossible to take advantage of the power given to the Finance Minister to hold not more than 25 per cent. of the value of the notes outstanding in gold and silver bullion, he was empowered to invest that proportion of the notes outstanding instead. It was further decreed that this provision should hold

good for the war and twelve months afterwards. The investment reserve of 50 per cent. of the notes in circulation was by this step increased to 75 per cent. of the notes in circulation.

Even this measure did not suffice, for some seven months afterwards, in April, 1918, conditions necessitated a further temporary amendment to the Paper Currency Act (No. 11), raising by another 10 per cent. the amount to be withdrawn by the Finance Minister for investment in securities—that is, 85 per cent. of the reserve held against currency notes in circulation. At that time the export trade of Siam was particularly brisk and the demands on the Siamese Treasury for silver ticals correspondingly keen, and it was the continuance of this demand for currency, combined with the practical impossibility of replenishing the Treasury's stock of silver ticals by minting, that led to the further amendment of the Paper Currency Act. The duration of this amendment is, it should be noted, governed by the Paper Currency Act (Amendment) B.E. 2459; consequently it is in force for the period of the war and twelve months thereafter. At 31st March, 1918, the actual stock of ticals in the vaults of the Paper Currency Department represented 26·5 per cent. of the value of the notes outstanding, and by the end of November, 1918, the circulation had increased to Tcs. 64·8 millions, and the reserve had fallen to Tcs. 11·7 millions, or only 18 per cent. of the value of the notes in circulation. The Siamese Treasury made every effort to conserve the silver in their vaults. First, in October, 1917, they made payment to the Banks in 75 per cent. of currency notes of small denominations, then the proportion was increased to 90 per cent. from the beginning of Dec., 1918. But, notwithstanding their efforts, the cash reserve began to fall so low that there was no alternative but to declare the notes temporarily inconvertible. As a matter of fact the continued demand for currency and the disappearance of the under-valued ticals compelled the Government to

discontinue the further issue of metallic ticals, so on 27th December, 1918, an amendment to the Paper Currency Act authorised the Minister of Finance to hold the whole reserve against issues of currency notes in investments. This was done by means of an amendment to the Paper Currency Act on 27th January, 1919, by which time the cash reserve had fallen to 13 per cent. of the value of the notes in circulation. The period of inconvertibility was fixed at six months, and this has since been extended by a notification dated 16th January, 1921, for a period of two years from that date.

Until quite recently the lowest denomination of note in Siam was 5 ticals, but owing to the impossibility of minting sufficient supplies of silver tical coins, and in view of the soaring price of silver and the difficulty of obtaining it, a note of smaller denomination was almost a necessity. The fiat went forth then, and notes for 1 tical were put in circulation in October, 1918.

As a matter of fact the Government had resort to a curious expedient to help to tide over the currency shortage. In December, 1918, the Currency Department was almost denuded of small notes, and the greatest anxiety was felt as to the ability of the Treasury to meet the requirements of the Banks for funds to finance the rice exports. Supplies of currency notes had been delayed *en route*, and the Government was faced with the prospect of being unable to find the currency required by the commerce of the country. In these circumstances they conceived the idea of surcharging an unissued series of 1 tical notes with a new value—Tcs. 50, making them legal tender for the surcharged amount. This measure tided over a few critical weeks until consignments of new currency notes began to arrive.

The inherent dangers in such an act were fully recognised, but the need for more notes was imperative, and the notes were duly surcharged and put into circulation. The hope that these surcharged notes would be difficult

to counterfeit was, however, false, and there was a certain number of fairly successful forgeries executed. These surcharged notes were first issued on 11th January, 1919, and they reached their maximum circulation on 26th March, 1919, when Tcs. 7,115,000 were outstanding. Those remaining in circulation have since been exchanged for notes of permanent values.

The figures for the various operations in Siam may appear small and insignificant to the reader who has perused what has been written on countries like India, for example; but, granted they are not very large, we have still to recognise that Siam, although sparsely populated, is a prosperous little kingdom and, as its trade and commerce is extending, we may safely assume that exchange operations are remunerative enough to make business with the country a useful adjunct to the operations carried on by the banks with neighbouring States. It is true that the extension of banking, as known in Europe, has not been very rapid, but attempts—more or less successful—are constantly being made to furnish the country with better facilities; and in the near future we may expect to see the Siamese in possession of a State Bank of their own.

Apart from the branches of the European institutions we have already mentioned, there are quite a number of Siamese and Chinese banks doing business in and around Bangkok; and among the more recently-formed companies we may mention the Siam Commercial Bank, Ltd., which was established in 1906 with capital subscribed by Danish, German, and Siamese financiers. The German element has since been eliminated, the Bank has now a British manager, and it is really a Government institution.

Generally speaking, there is an absence of regular banking facilities for the interior of the country; but as the Government is always prepared to meet the convenience of traders and others by selling drafts on its principal district treasuries, no serious hardships are

experienced. In fact, when up-country transfers are required, the native *commerçants* are not slow to avail themselves of this privilege granted by the Government and, as the commission charged is very small, the system works satisfactorily enough in practice.

The European banks doing business in Bangkok confine their operations principally to the financing of the import and export trade of the country; and as the Hongkong and Shanghai Banking Corporation, the Chartered Bank, the Mercantile Bank of India, and the Banque de l'Indo-Chine all have branches and agencies in the chief financial centres of the world, they are, of course, in a position to take a very prominent part in Siam's foreign trade. From the figures of the foreign trade, then, may be gauged approximately the extent of the operations of these banks.

During the financial year, 1921-22, imports into Siam were valued at ticals 133,723,000 (say, £10,286,200). The exports were valued at ticals 164,496,000 (say £12,653,540). The financing of these imports and exports was practically all done by these foreign branch banks.

The manner in which the imports and exports are financed varies according to the different customs of the trade: some shippers will obtain payment for their wares by drawing direct on their consignees and sending the documents for collection through the banks; others will avail themselves of one or other of the forms of documentary credits in existence; some will get their money by arranging bankers' credits, or even get the banks to take the place of acceptors; while some firms may rely entirely upon reimbursement credits. It just depends upon the particular whims of the traders and the bankers, or both, and, what is most important of all, upon the financial standing and *morale* of the parties to the transaction. In speaking of reimbursement credits, we are reminded that a little explanation of that somewhat elastic term may be advisable. A typical example will perhaps suffice to show what is meant.

We will assume that a London timber merchant has bought teak in Bangkok: if the Siamese exporter wants his money in that port, the London importer has three or four ways in which to settle his debt to the timber exporter. He may remit a sterling demand draft to Siam, which the exporter there can turn into cash at the rate of the day immediately on arrival; he may purchase through, say, the Hongkong Bank, a demand draft in Siamese currency, ticals, and send that; or he may request the exporter to draw a documentary draft on him payable in London at so many days or months after date or sight (i.e. a bill of exchange with shipping documents attached); or—and this is the method which will most probably be followed—he will request the bank in London to instruct its Bangkok branch to open a credit in favour of the Siamese exporter, under which the latter will be reimbursed for his goods directly the teak is ready for shipment and the complete shipping documents, together with a bill of exchange drawn on the London importer, are handed to the bank in Siam. To carry this operation a little further: the Bangkok trader gets his money, the wood is shipped, and the documents are forwarded to London. When the bill with the documents attached arrives in London, the bank there presents the bill to the importer; the latter accepts it; and, assuming he is a man of standing, has the shipping documents transferred to him. In due course, he sells his teak, and with the funds thus obtained pays off his acceptance at or before maturity.

An exactly similar operation may, of course, be carried out if the venue is changed and an export of, say, piece goods or machinery is sent from London to Siam: the importer will be in Bangkok this time, and will be called upon to arrange payment by the same methods.

Finally, there are cases in which arrangements may be made for the consignment to be disposed of and payment ultimately made by telegraphic transfer, that is to say,

the proceeds of shipments are paid into the banks, which remit the money at certain agreed rates to London or elsewhere (i.e. they telegraph to their European agents to pay the sterling equivalent to the designated payees immediately the cable is received). This operation may also take place from London to Siam.

Having arrived at this point, let us see how exchange is quoted by the banks.

In the following list, as the reader will see, both buying and selling rates are quoted—

BANKS' SELLING RATES.			BANKS' BUYING RATES.		
On London	D/d	1s. 6 $\frac{7}{8}$ d.	On London	D/d	1s. 6 $\frac{1}{2}$ d.
" "	T.T.	1s. 6 $\frac{1}{2}$ d.	" "	3 m/s	1s. 6 $\frac{1}{4}$ d.
" Straits	D/d	65 $\frac{5}{8}$	" "	6 m/s	1s. 7 $\frac{1}{4}$ d.
" Hong-Kong	D/d	72	" Straits	15 d/s	66 $\frac{1}{2}$
" India	T.T.	114	" Hong-Kong	15 d/s	73 $\frac{1}{2}$
			" India	3 m/s	117 $\frac{1}{2}$

These lists, if the reader has followed what has been written in other chapters, will need little explanation. Taking the selling rates first: on "London D/d" simply means the price at which the bank is prepared to sell demand drafts drawn on London; or, in other words, for each tical of Siamese currency paid to the bank, it is prepared to give a bill drawn on London for 1s. 6 $\frac{7}{8}$ d. payable there on presentation of the bill. "T.T." represents the shillings and pence which the bank will be prepared to telegraph to its branch in London to pay for each tical handed over in Bangkok. "Straits D/d" signifies that in return for 100 ticals Siamese currency, the bank will sell a bill for \$65 $\frac{5}{8}$  payable on demand, say, in Singapore. Similarly, the interpretation of the Hong-Kong rate is, that a demand draft drawn on Hong-Kong for 72 dollars local currency will be sold in exchange for 100 ticals Siamese currency paid on the spot in Bangkok. "India T.T. 114" means that 114 rupees will be paid in India under telegraphic advice for each 100 ticals passed over the bank's counter in Bangkok.

There is little further to explain about the buying rates.



Demand calls for no comment: "On London 3 m/s" means that the bank is open to buy bills of exchange drawn in sterling on London, and will give the seller 1 tical for each 1s.  $6\frac{3}{4}$ d. represented by the bill; and the only difference between that and the 6 m/s rate is that the first bill will be paid in London three months after sight, while the second will not be paid until six months after sight in London, three days' grace also being added in each case according to English law. For the six months' bill, too, the buyer receives more shillings and pence than he does in the three months' rate, because he has to wait for a longer time before he can obtain repayment of the amount he has, so to speak, advanced on the security of this piece of paper called a bill of exchange. "Straits 15 D/s" means that the bank will give 100 ticals for each  $66\frac{1}{2}$  dollars represented by the bill drawn on the Straits Settlements, and payable fifteen days after sight, that is, after it has been presented to the person upon whom it is drawn in, say, Singapore or Penang. Then, for the bill drawn on Hong-Kong, payable fifteen days after sight, the bank will give the seller 100 ticals for  $73\frac{1}{2}$  Hong-Kong dollars. When we get down to India, the position changes somewhat; Indian rupees are worth less than the Siamese ticals; therefore for a bill drawn on India, and payable there three months after presentation for sighting to the person upon whom it is drawn, the bank will require the seller to surrender  $117\frac{1}{2}$  Indian rupees for every 100 ticals paid in Bangkok.

Whilst on this subject of exchange, it may be as well to mention that Siam has raised two or three foreign loans; and as the reader will doubtless bear in mind what we have previously written in regard to the effect on exchange of the flotation of foreign loans and the subsequent interest payments, the details will be of interest.

Siam raised her first foreign loan in 1905 in Europe: the amount was for £1,000,000. The issue was made in

London and Paris, the rate of interest being  $4\frac{1}{2}$  per cent. per annum, and the issue price  $95\frac{1}{2}$  per cent. This loan is repayable within forty years at par by drawings commencing in 1911, with option to the Siamese Government to redeem at par at any time on or after 1st September, 1915, on giving three months' notice. Interest is payable half-yearly—on 1st September and 1st March in London and Paris. The balance of the 1905 loan outstanding at the end of the year 1923–24 was £767,640.

In 1907, Siam raised a second loan: this time for £3,000,000, of which £1,125,000 was issued in London, £1,125,000 in Paris, and £750,000 in Berlin. The price of issue in this case was  $98\frac{1}{2}$  per cent., and the interest  $4\frac{1}{2}$  per cent. per annum: the loan is repayable within forty years at par (that is, at £100 per £100 bond), by drawings commencing in 1913; and the Siamese Government has power to redeem at par at any time on or after 1st March, 1917, on giving three months' notice. Interest is payable half-yearly—on 1st September and 1st March, in London, Paris, and Berlin. The balance outstanding at 31st March, 1924, was £2,430,780.

In 1909, the Federated Malay States Government entered into a contract to lend to the Siamese Government a sum not to exceed £4,000,000, which, however, was afterwards increased to £4,750,000. This advance was made for the purpose of constructing the Southern Railway, and interest at the rate of 4 per cent. per annum is paid only on the actual amount received. The total sum arranged for is being drawn upon gradually as required; and at the time of writing, £4,642,805 has been advanced on this account.

The Loan of £4,000,000, as at first arranged, had for its object the construction of a line from Pechaburi southwards, running down the east coast of the Peninsula and connecting with a British line on the boundary between the Siamese Province of Patani and the State of Kelantan. The two Governments concerned have, however, since

agreed to make a further connection on the Kedah border—a State lying on the west side of the Malay Peninsula—and the additional amount of £750,000 is intended for the construction of the new Siamese line. The Southern Railway at present runs from Bangkok to Koh Lak, but when the whole of the line is completed, the effect will be to connect Bangkok with the important ports of Singapore and Penang; and, seeing the commercial advantages which will then accrue to both nations, the reasons for the Federated States Government making the advances are obvious. The through service between Bangkok and Penang was opened in July, 1918, three days being necessary for the trip, but since 1st January, 1922, arrangements have been made to operate a sleeping car service between the two points, and the journey now takes only 36 hours. Practically the whole of the Southern Line is now completed.

The United Kingdom, needless to say, takes a prominent place in the foreign trade of Siam. During the year 1921–22, out of total imports into Siam (£13,958,518), £2,480,000 worth emanated from the United Kingdom; Hong-Kong's quota was £3,582,253, while Singapore was a very good third with a participation of £2,445,732. India was fourth with imports into Siam of the value of £1,192,000. Turning to exports, we find Singapore heading the list by taking produce and manufactures to the extent of £5,781,000 out of Siam's total exports of £17,171,000. Kong-Kong participated to the extent of £4,169,000, while the United Kingdom's share was £910,300; India received only £255,000 worth.

The figures for Siam's entire foreign trade are not large enough to warrant our giving full details, but the list of the principal imports and exports will give a general idea of the present trend of trade. It will be seen that the chief items of export are rice and teak-wood, due to the fact that Siam is quite an agricultural and not a manufacturing country. Siam's almost exclusive attention to agriculture may be accounted for partly by the geological

formation of the country, partly by its climate, and partly by the scantiness of its population. The imports comprise a whole series of manufactured articles, but cotton bulks largely in every cargo of general imports. This emanates principally from Great Britain, India, France, Italy, Switzerland, Holland, Germany, and Denmark. European cargoes are mostly transhipped at Singapore, but those from America and Japan enter the country *via* Hong-Kong. The countries of production vary; but Manchester and Indian goods at present predominate, their principal competitors being Holland.

The Siamese Government's statistical returns show that the total exports during 1921-22 were valued at ticals 142,008,670, and the total imports ticals 133,722,607.

The principal exports comprised—

	<i>Ticals.</i>
Rice . . . . .	138,231,324
Teak . . . . .	7,111,071
Wood other than teak . . . . .	1,411,268
Silk piece goods—black . . . . .	1,594,544
Bullion, coin, etc. . . . .	151,000

The principal imports consisted of—

Textile manufactures—cotton . . . . .	25,316,930
All other textile manufactures . . . . .	5,414,756
Foodstuffs . . . . .	17,642,764
Metal manufactures . . . . .	9,938,704
Kerosene oil . . . . .	3,709,461
Tobacco, cigars and cigarettes . . . . .	4,799,565
Bullion and coin . . . . .	3,034,417

The average exchange value of the tical from 1918 to 1922 was—

	<i>Ticals.</i>
1918-19 . . . . .	13.02 = £1
1919-20 . . . . .	11.28 = £1
1920-21 . . . . .	9.58 = £1
1921-22 . . . . .	9.58 = £1

The trade statistics refer only to the Port of Bangkok. Approximately 85 per cent. of the total trade of Siam passes through that port, and its transactions have been the subject of statistical record for a number of years. Figures representing the trade of the Provinces, on the other hand, have only been published since 1920-21.

Taking the foreign trade of the whole of Siam for the year 1921-22, we find that the total imports were of a declared value of ticals 144,542,065, while the total exports including re-exports valued at ticals 5,715,940, amounted to ticals 183,620,381. The balance of trade in favour of Siam was, therefore, fairly satisfactory.

**TOTAL TRADE BETWEEN SIAM AND THE UNITED  
KINGDOM FOR FIVE YEARS—1911-15 AND FOR 1922**  
(As per Statistical Abstract for the United Kingdom  
and Board of Trade Returns.)

	1911 £	1912 £	1913 £	1914 £	1915 £	1922 £
Imports from Siam into United Kingdom .	421,658	322,737	516,187	814,319	1,614,871	298,976
Exports to Siam from United Kingdom .	1,038,238	1,086,080	1,352,424	1,012,808	877,494	2,235,591

The details of the trade of the Port of Bangkok for 1922-23 show that imports were valued at ticals 133,717,905 and exports were valued at ticals 150,058,804.

The Customs Tariff of Siam, save as it relates to spirituous liquors, is determined by a series of commercial treaties, negotiated between 1856 and 1885. The duties on beer, wines and spirituous liquors are leviable under the Excise Law Amendment Act, B.E. 2460 (1917-18).

The import duties are: On beer and wine, 8 per cent. *ad valorem*; other spirituous liquors of 25 degrees and under, 40 tical cents per litre. Additional duty, for every degree above 25 degrees, 1·6 tical cents. All other goods are subject to a 3 per cent. *ad valorem* duty. Treasure, gold-leaf, and goods (other than spirituous liquors) imported solely for the importer's personal use, are exempt from duty.

The principal export duties are: Ivory, 10 ticals per picul. Rice (paddy), ticals 2 per coyan; cargo rice, ticals 4 per coyan; cargo broken rice, ticals 2 per coyan; white rice, ticals 4 per coyan; white broken rice, ticals 4 per coyan. No duty is payable on cotton, pepper, timber, salt, copra, and a number of other articles; but most of them are subject to inland or transit duty.

Articles of Siamese production, other than those liable to export duty, are subject to inland taxation, in the form either of a transit duty or of forest or mining royalty. The tariff of Inland Transit Duties is detailed and varied, but the general effect of its operation approximates to a tax of 10 per cent. *ad valorem*. Goods liable to inland taxation are free of export duty, and vice versa.

### Siamese Weights and Measures.

The Metric system has been adopted in Siam, but no law has as yet been passed making the use of the system compulsory. However, the standards have been obtained and preparation made for the establishment of a Central Office of Weights and Measures. As in so many other Eastern countries, the Siamese silver coins are also the measures of weight.

In Bangkok the silver tical is used as a measure of weight, 80 ticals being taken to be the equivalent of one catty.

1 tical = 15 grammes.

1 tamlung = 4 ticals = 60 grammes.

1 Siamese catty (or chang) = 80 ticals = 1.2 kilogrammes (2½ lb.)

1 picul (or hap) = 133½ lb. = 60.48 kilos = 100 catties of 1½ lb.,  
which is the catty generally used  
in commerce.

Other measures of weight are: The salung, weighing ¼ of a tical; the fuang, weighing ⅛ of a tical; the hun, weighing ⅓ of a fuang, and the lee, weighing ½ of a hun. The hun and the lee are really Chinese weights. The small weights are those used for weighing gold and jewels, opium, medicine, etc.

The measures of length are—

1 niu	= .83 inch
1 keup (12 niu)	= 10 inches
1 sok (2 keup)	= 20 "
1 wa (4 sok)	= 80 "
1 sen (20 wa)	= 133 feet
1 yot (400 sen)	= about 10 miles (16 kilo- metres would be more accurate)

The chief unit of length, the wah, is exactly two metres. The rai is 1,600 sq. metres, and the acre is  $2\frac{1}{2}$  rais.

The coyan, used as a measure of capacity = 16 piculs paddy = 22 piculs cargo rice = 22 piculs white rice. The coyan or kwien contains 80 sat (baskets) or 100 tang (buckets).<sup>1</sup> In April, 1919, when maximum prices for rice were fixed temporarily, the kwien was also fixed at 80 thang of 40 lbs. each or 24 piculs.

100 square wa make 1 ngan: 4 ngan make 1 square sen or a rai of paddy land, equivalent to two-fifths of an acre.

Sawn wood is sold by the yok, which is 16 wa long by 1 sok wide by 1 niu thick. It contains 11.44 cub. ft.

A word or two of explanation may be usefully added with reference to Capacity Measure. The measures of capacity employed in Siam depend on local custom and vary considerably from place to place.

As an example may be given a table of measures commonly used by rice mill owners; in the absence of any official standard these measures are liable to vary considerably.

*Rice Mill Paddy Measure* : (the tanan = .92 litres approx.)

40 tanan	= 1 tang	= 36.8 litres
40 tang	= 1 ban	= 1472 "
2 ban	= 1 kwien	= 2944 "

For the assessment of export duties on rice and paddy a special "Kwien" is used, which is equivalent to—

1 kwien	=	{ 16 piculs paddy
		{ 22 " cargo rice
		{ 23 " white rice
The picul	=	133 $\frac{1}{2}$ lb. av.

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<sup>1</sup> The coyan, or kwien, is not really a measure, but is a convenient expression signifying 2,000 kanahn: 20 kanahn being equal to 1 tang, a wooden bucket used for measuring grain and holding, approximately, 19 litres,

**Currency.****PRINCIPAL COINS**

<b>GOLD.</b>	10 tical gold piece (or Dos) not yet issued. Weight 6.20 grammes.	
<b>SILVER.</b>	1 tical silver piece—weight 15 grammes (236 grains troy). One tical = 100 satang—full legal tender	
	2 salung pieces or $\frac{1}{2}$ tical = 50 satang temporarily unlimited legal tender.	
	1 „ „ or $\frac{1}{4}$ tical = 25 satang legal tender to the value of 5 ticals.	
<b>NICKEL.</b>	10 satang piece	} Legal tender to the value of 1 tical.
	5 „ „	
<b>BRONZE.</b>	1 „ „	
<b>PAPER.</b>	1 tical	
	5 ticals	
	10 „	
	20 „	
	50 „ (surcharged over 1 tical)	
	100 „	
	1,000 „	

There is just one other point which remains to be mentioned in connection with Siam: it concerns the Siamese Calendar.

There were formerly three eras in common use in Siam and, as may be expected, the system led to no little confusion: there was the Buddhist era, dating from 543 B.C.; the Maha Sakarat era, dating from A.D. 78; and the Chula Sakarat era, dating from A.D. 638. Various changes were made from time to time; and, although in 1889 the Gregorian Calendar was adopted, up to the end of March, 1913, the era in use in Siam for all official purposes was that known as the Ratanakosindr (usually written R.S.), which was based on the date of the transfer of the capital from the West to the East Bank of the Menam Chao Phya River. This era has, however, been discontinued, by Royal Decree, with effect from the 1st April, 1913; and its place taken by the Buddhist era (Phra Buddhasakaraht), which is based on the death of Gautama Buddha in 543 B.C. The change was made purely for historical purposes, as it was believed that an era which went back no further than a little over a century and a quarter was an inconvenient one to employ for official records.



For purposes of reference, the equivalent year in the Buddhist, Ratanakosindr, and Christian eras for the ten years (1904-5—1923-24) are given (all years commence 1st April).

<i>Buddhist.</i>		<i>Ratanakosindr.</i>		<i>Christian.</i>
2447	.	123	.	1904-05
2448	.	124	.	1905-06
2449	.	125	.	1906-07
2450	.	126	.	1907-08
2451	.	127	.	1908-09
2452	.	128	.	1909-10
2453	.	129	.	1910-11
2454	.	130	.	1911-12
2455	.	131	.	1912-13
2456	.	—	.	1913-14
2457	.	—	.	1914-15
2458	.	—	.	1915-16
2459	.	—	.	1916-17
2460	.	—	.	1917-18
2461	.	—	.	1918-19
2462	.	—	.	1919-20
2463	.	—	.	1920-21
2464	.	—	.	1921-22
2465	.	—	.	1922-23
2466	.	—	.	1923-24

In official financial communications, the year is written "B.E. 2466" (1923-24), etc., etc.

## CHAPTER XVII

### JAVA AND DUTCH EAST INDIES

#### CURRENCY, BANKING, EXCHANGE, AND TRADE

THE Dutch East Indies (*Nederlandsch-Oost-Indië* in Dutch, or *Nederlandsch-Indië*—Dutch India) are situated in the Malay or East Indian Archipelago, lying between 95° and 141° Eastern longitude, and between 6° Northern and 11° Southern latitude. These Dutch Colonies form a domain twelve times the size of England, and are washed on the east by the Pacific Ocean, on the north by the China Sea, and on the south and west by the Indian Ocean. The inhabitants, of the numerous islands, their language, the flora, the fauna, and the geological formation all point to one conclusion, says the Government, viz., that they are the highland remains of a vast and extensive Continent which formerly united Australia to Asia.

The territory comprising the Dutch East Indies covers an area of 736,400 square miles, and is made up of the Larger Sunda Islands (Java, Sumatra, Borneo, and Celebes); the Smaller Sunda Islands, which include the long chain of islands to the east of Java from Bali to Timor; the Moluccoes, or Spice Islands, from Halmaheira to Banda; and, finally, Western New Guinea.

According to the latest census, that of November, 1920, the total population consists of 49,350,834, approximately 67 per square mile of territory. By far the greater part of this population is, however, domiciled in the island of Java. Java is, with the exception of Sumatra, Borneo, and Celebes, the largest island in the East Indian Archipelago. It is 668 miles long, with an area of 50,554 square miles, and on the 21st October, 1922, had a total population of 34,984,171, that is, 692 to the square mile. Its greatest breadth is 124 miles, which gradually diminishes to 37 miles at the narrowest part. Java, the Dutch consider

to be the most precious jewel in the whole emerald girdle which encircles the Equator, and we may safely regard it as the most important of the Netherlands' possessions in the Far East.

For administrative purposes, the Dutch East Indies are divided into two large departments: the first includes Java and Madura; the second, the Outer Possessions, as they are termed (*Buitenbezittingen*), with Sumatra, Borneo, and the other islands. This second division covers a much larger area than Java, but it is inferior in population and also in natural wealth. However, although Java and Madura are the two most thickly populated of the islands, and the furthest advanced in commerce and civilisation, yet the greater part of their population consists of natives, which may be divided into three groups: the Sundanese, who congregate mostly in the western part of Java; the Javanese proper, who inhabit Central Java; and the Madurese, in Madura. The number of Chinese in Java and Madura is also very considerable, and then there is a fairly large class of Arab traders scattered about.

The three principal ports in Java are: Batavia, Samarang, and Sourabaya.

The total revenue for the Dutch East Indies during 1923 was Fls. 615,209,895 (taking 12 florins to £1 = £51,267,491), derived from taxes on land, houses and estates; from licences, Customs duties, personal imposts, and a number of indirect taxes; from the Government monopolies of salt, pawn-shops and opium, railways, and from the sale of Government products.

On 1st January, 1923, the National Debt was 1,134 million guilders.

The history of currency in the Netherlands Indies is largely that of the Java Bank; the Government, nominally, has always been the controlling factor, but in actual fact the Java Bank is invested with practically supreme authority in all matters concerning currency and exchange

in the Dutch East Indies. The monetary circulation in the Colony is the direct concern of this institution, and the Dutch Government expects it to prevent, as far as possible, violent fluctuations in the circulation. It is also the duty of the Bank, as we shall presently see, to maintain the gold parity in the foreign rates of exchange between the Netherlands India and neighbouring countries, and between Netherlands India and Europe.

Dr. G. Vissering, a former President of the Java Bank, divides the history of currency in the Netherlands Indies into five distinct periods, but for our purpose four divisions will perhaps be sufficient. An examination of the first period reveals conditions very much the same as those found in the early stages of currency development in other Eastern countries and States, although in this particular instance the authorities do not appear to have made the fatal mistake of over-issuing paper currency. What they did was to issue excessive quantities of copper coins, and they were emboldened to take this step not with any desire to flood the market with coins, but simply because they had previously made copper legal tender to any amount. They did not realise the true principles of currency and, consequently every time an increased demand for local currency arose, or there appeared to be a shortage of the circulating medium, nothing seemed more easy than to mint further supplies. Anyway, they recognised they had power to expand the currency, but it never seems to have occurred to the authorities that their powers also extended in the other direction—contraction. Indeed, so rapidly and so carelessly were these copper coins poured out, that counterfeiters entered the market, and large amounts of spurious coins began to circulate. Huge quantities emanated from Europe, where, it is reported, factories “found their chief occupation in manufacturing false coins”<sup>1</sup> and so serious did the evil become that diplomatic intervention was needed to

<sup>1</sup> Cf. *On Chinese Currency*, p. 116 (Dr. G. Vissering).

stop the import of counterfeit copper coins into Java.

The natives of Java always appear to have had a liking for copper coins, and as far back as 1596 we find a writer saying that in "Sunda (Java) there is also no other kind of money than certain copper mynt called 'caixa,' of the bigness of a Hollādes doite, but not half so thicke, in the middle whereof is a hole to hang it on a string, for that commonlie they put two hundred or a thousand upon one string."<sup>1</sup>

That was a step in the right direction, but it did not go very far, for the Government of the day still failed to appreciate the fact that the activities of its own mints were the cause of a good many currency troubles; and it was not until Gresham's Law began to operate, and the bad or less valuable currency commenced to drive out the good money, that the Government perceived what a disastrous policy was being pursued.

If we may be allowed to digress for a moment, it might here be noticed that Gresham's Law does not actually begin to operate until the coins issued are in excess of the needs of the community. Bad money—or, as we prefer to call it, less valuable money—may, and, in fact, does, drive the good or more valuable money out of circulation, but only when this latter is, as we have said, issued in excess. It is, as the economist Ricardo states, "a mistaken theory to suppose that guineas of 5 dwt. 8 gr. cannot circulate with guineas of 5 dwt. or less. As they might be in such quantities that both the one and the other might actually pass in currency for a value equal to 5 dwt. 10 gr., there would be no temptation to withdraw either from circulation; there would be a real profit in retaining them."

What actually happened in the Netherlands India was that the superabundance of copper coins led to the

<sup>1</sup> Lindschoten, *Intinerarie Voyage*. Quoted by R. Chalmers. *History of Currency in British Colonies*, p. 372.

inevitable disappearance of the silver coinage, which was exported at an alarming rate. Private persons promptly parted with any silver currency they possessed, and before very long the Bank of Issue—the Javasche Bank—found its own stock of silver reduced to a few thousand silver pieces. The Bank was, apparently, powerless to help itself, and a step was forced upon it, which, in the circumstances, was about the best thing that could have happened; it ceased to redeem its own notes in silver and, as a result, the copper currency of the Islands depreciated to such an extent that the Government was compelled to take energetic measures to alleviate the distress, of which the debased currency was the obvious cause. In this, the second period in the currency reform, a difficult situation had to be dealt with: silver, which had necessarily to be imported, disappeared almost as fast as it entered the country; and, as the effect on trade became more and more serious, in 1845 it was decided to stop the coinage of copper coins and to prohibit their importation into the Colony under heavy penalties. It was further decided to issue paper currency in the shape of "silver certificates."

These silver certificates only nominally represented silver, since as a matter of fact no actual silver reserve was held against them; and as this state of affairs was quite well known to the world and his wife, in default of other safeguards they might have been expected to have depreciated heavily. To prevent this, however, the Government gave them the benefit of its official backing, and in the first place it guaranteed to accept the certificates without limit in payment of all taxes and other public dues. Then, in addition to this, an arrangement was made whereby the Government undertook to issue bills of exchange drawn on the Netherlands Treasury and payable in Holland in silver coins, ten months after the date of each instrument. In payment for these drafts so issued, the Government in the Netherlands Indies accepted the silver certificates. The effect of this somewhat novel

arrangement was to give confidence to the persons who held the paper, for they were able to rest content with the knowledge that, in case of necessity, the conversion of any quantity of the certificates into standard silver could be carried out without much loss, the only deduction to which they were subject was: the cost of shipping silver from Holland to the Netherlands Indies, plus, of course, insurance, and the loss of interest while the shipment was *en route*. These charges, according to Dr. Vissering, found their expression in the rate of exchange, and (as he says) interest was calculated at 6 per cent. per annum, and amounted therefore for the tenure of the drafts—ten months—to 5 per cent. Charges for freight and the various items connected with the transport of silver were at that period very heavy, “and the rate of exchange for the Netherlands Government’s drafts consequently moved between the limits of about 10 per cent. over and 10 per cent. under par,”<sup>1</sup> which, however, did not interfere with the successful working of the scheme.

Finally, the silver certificates were made full legal tender in the Netherlands Indies, and were issued in exchange for copper in actual circulation at the fixed rate of 100 per cent. in silver certificates for 120 per cent. copper coins.

As we have mentioned, the innovation met with a favourable reception, and the restoration of confidence in the currency was followed by a marked revival in trade; and although some little time necessarily elapsed before the authorities were able to get their redundant copper circulation within reasonable limits, the rot was stayed; and as those requiring the bills on Holland could purchase them only with silver certificates, they were first of all obliged to surrender 120 per cent. of their copper coins. Every sale of drafts on Holland meant, therefore, the withdrawal of a certain amount of copper and, *pari passu*, the strengthening of the colonial Government’s currency position. Notwithstanding the fact, however, that the

<sup>1</sup> Cf. *Chinese Currency*, pp. 117 *et seq.*

silver certificates were intended to form merely a transitional currency, the Government did not succeed in redeeming all of them for some considerable time, and they continued in circulation for about fourteen years—until 1859—when the Government, which had previously fortified itself with large quantities of silver florins from Holland, exchanged the remainder for their full face value in hard silver cash. This latter step was taken as the result of the successful passing of the Netherlands Indies Currency Act of 1854, which Act had for effect the establishment on sound principles of the silver standard for the Dutch Colonies in the East. This reform, incidentally, cost the Netherlands India Government some 20,000,000 florins (say, £1,666,666).

The adoption of the silver standard brings us to Vissering's third period; and, to be very brief, it may be stated that the silver coins issued were of the value of  $\frac{1}{2}$ , 1, and  $2\frac{1}{2}$  guilders (or florins), which were unlimited legal tender. Both silver and copper subsidiary coins were issued, but not only was their circulation kept within strictly narrow limits, but they were not full legal tender. Ultimately the system in vogue in Netherlands India became exactly the same as that in operation in Holland; and as both the banks and the Government were equally well able to import or export currency in settlement of indebtedness, the necessity for maintaining the exchange value of the guilder at an artificial rate ceased to exist—or at least the authorities thought it did—but there were other considerations to be reckoned with. Then, as now, silver was a commodity always much in request in India, where its value was higher by the amount of the freight and charges incidental to shipping it from Europe; and the difference between the cost of silver in Europe, London, and India was clearly discernible in the rate of exchange, which at times fluctuated heavily.

This state of affairs was a serious drawback to Netherlands India, since, on account of her proximity to the



other Eastern centres, she found herself in the position of losing large and increasing amounts of the silver florins to other nations. Mainly owing to the higher value—comparatively speaking—of silver in the East than in Europe, it was easier and less expensive for the bullion dealers and exchange banks to collect silver coins in Java and to ship them to British India, China, the Straits Settlements, or Japan, whenever the rates of exchange indicated a profit on the transaction. Serious, however, as was this handicap to the Government, she met it with commendable skill by the importation of very large sums of silver from the home country whenever the occasion called for such action; and apart from the effect on her currency from the continued depreciation in silver and the evils from which she suffered in common with all other silver-using countries at that period, Netherlands India was, so to speak, out of the wood. Her trade and commerce were improving rapidly; many new enterprises were started and developed; a number of European banks and finance houses opened branches in her principal centres; and, all in all, she was in more constant commercial relations with the rest of the world than many of her more fortunate competitors. For the rest, the authorities were content from that period, about 1870, to leave exchange transactions in the hands of the exchange banks; the finance, exchange, and currency of the Colony was on a sufficiently stable basis to merit it; and all the Government was concerned with was the financing of its own operations unconnected with the maintenance of the rate of exchange.

We thus arrive by a gentle and undisturbing course of events to the fourth period, which is marked by the institution of the Currency Act of 28th March, 1877, under which the gold 10-guilder piece was introduced as the standard coin of the colony.

We have said, in effect, that this step was brought about by the effluxion of time; but it would be more

correct to admit that the transformation of Netherlands India into a gold country was forced upon it by the circumstances in which the Colony found itself as the direct result of the adoption by the Netherlands, on 6th June, 1875, of the gold 10-guilder piece as the standard coin. During the two years that elapsed between that date and its introduction into the Netherlands Indies, silver, as mentioned previously, had declined rapidly, and the evils with which the country had to contend were not rendered lighter by a certain dislocation between Netherlands India and the home country. With one country on an acknowledged gold standard and the other still adhering to a silver currency, operations became increasingly difficult. However, it did not take the Dutch authorities long to realise the situation, and the adverse conditions were soon ameliorated by placing the Colony on the same standard as the Netherlands.

There remained the silver coins introduced under the old standard, which were now relegated to the position of token currency only. The gold value of silver continued to fall, and for a time, at any rate, it became necessary to maintain the par of exchange with Europe by sundry means, more or less artificial. Let us at once say that the gold 10-guilder pieces do not circulate freely in Java and Netherlands India generally, even now, possibly because of the inherent liking of the Eastern races for silver. What the Government had to do, therefore, was to prevent its silver token coinage from depreciating in value, and just how this is managed is stated in a few words.

The legal silver coins are accepted at their full nominal value by all Government offices—public bodies, municipal authorities, and the like, and, in consequence, the banks and all other institutions and people are in the position of having to follow suit, and accept the silver pieces at their face value. Then, as the coins are exactly the same as those circulating in Holland, they are always redeemed

by that country at the nominal value as and when received by the home Government.

Of course, there is the difference in exchange arising out of the shipment of the coins to be taken into account. These transit charges include freight, packing, insurance, and loss of interest while the silver<sup>1</sup> is *en route* from the East to Europe, or from Holland to the East—costs which immediately before the war averaged about  $\frac{3}{4}$  per cent.<sup>1</sup> Therefore the extreme limits between which the exchanges of the two countries fluctuate in normal times are obviously  $99\frac{1}{4}$  and  $100\frac{3}{4}$  per cent.; and, as it happens, during the years 1911–14 those limits of variations in exchange between Java and Amsterdam were rarely exceeded. The increase in freights and insurance, and other charges, made it impossible to maintain the rate of  $99\frac{1}{4}$  for telegraphic transfers to Amsterdam in 1915. On 8th September, 1915, the rate was increased to  $98\frac{1}{4}$  (meaning that T.T's. on Amsterdam were quoted at  $1\frac{3}{4}$  per cent. premium). At this rate there were plenty of buyers. We shall refer later on to the policy of the Java Bank in regard to exchange during 1922–23.

In a word, what the Government aims at doing is to maintain the gold parity of its silver token coinage in Netherlands India. Under the gold exchange standard which now exists, it is necessary for the authorities to be in the position to contract as well as to expand the currency. Expansion, it is apparent, is secured by the importation of silver from Holland or elsewhere; contraction is brought about by the sale in the Netherlands Indies of drafts and telegraphic transfers drawn on Holland, and the silver received in payment can be temporarily withheld from circulation until such time as the exchange value of the florin or guilder calls for its release.

Nowadays, however, the Government does not itself generally attend to the regulations of the exchange: that function has long since been relegated to the exchange

<sup>1</sup> The cost is now (1924) approximately 1 per cent.

banks, or, more particularly, perhaps to the Central Bank of issue, the Java Bank, to whose operations we must now turn our attention.

In matters of exchange, the Java Bank works under agreement with the Government, and the bank carries through all such operations at par, that is to say, it makes Government telegraphic remittances to and from Holland without either profit or loss to the Government. This necessitates the bank's being constantly in the position to comply with the immediate requirements of the Government; and whether the Government desires money to be transmitted to Europe or from Europe to Netherlands India, the Java Bank is expected always to be able to carry out the operations entrusted to it.

We have previously shown that it is the duty of the Java Bank not only to control the monetary circulation in Netherlands India and to prevent violent fluctuations in this circulation, but also to maintain the gold parity in the exchange rates between Netherlands India and the neighbouring countries, and between the Colony and Europe. It is the function of the Java Bank, therefore, as far as lies in its power, to buy and to sell drafts or telegraphic transfers on Holland and foreign countries, and to place gold and silver at the disposal of the public for export abroad or to Holland, should exchange rates tend to such export; or, on the other hand, to buy silver and gold imported from Holland and foreign countries when exchange is at the import point.

With regard to international transactions, the bank states that it has always been prepared to deliver gold for export or to buy imported gold when the rates of exchange reach the gold point.

The bank is not allowed to sell long usance drafts: it is authorised only to draw at sight or by telegraphic transfer, but it is permitted to buy bills of exchange, the term or usance of which does not exceed the one customary in trade. The Government strictly prohibits the

bank from granting blank credit to anyone, and, incidentally, it cannot even allow blank credit to the Government.

For all practical purposes, the bank does not enter into competition with the other exchange dealers for foreign bills of exchange: its one great object is to act as a sort of Bank of England to the other banks. It is the "Bankers' Bank" and the Bank of Issue of Netherlands India, and in a way it fulfils this double rôle by maintaining the gold parity of the country. Consequently, the bank prefers to leave the arbitration in drafts on foreign countries to the other Eastern banks established in the Colony, although, naturally, should occasion arise and transfers be required in connection with the private needs and operations of the bank; or, when it has balances to dispose of, the officials of the concern are perfectly within their rights in operating on the open market in the same way as any other dealer in money. Otherwise, (we quote from the 1911-12 report of the Java Bank,) it confines itself to, or close to, the limits of specie parity for import and export of bullion. If that be reached, it sells drafts and telegraphic transfers on foreign countries as long as its position renders it desirable, and in order to prevent exports of specie. Similarly, it continues to buy telegraphic transfers and drafts on foreign countries should it wish to prevent or restrict the import of specie from abroad.

This bears out what we have said concerning the contraction and expansion of the currency.

Then, to carry the adherence to the gold exchange standard a little further, the Java Bank, being the pivot around which the currency of the islands circulates, finds it necessary to keep not only a certain amount of specie in gold coins of the Netherlands and any foreign gold, but also to maintain a reserve consisting of foreign bills of exchange payable in gold, and loans at call or at short notice (against the deposit of satisfactory security quoted on the principal European and American exchanges). When necessary, too, it keeps a reserve in the precious

metals earmarked for its account in Holland or in foreign countries. Some idea of these reserves may be gauged from the balance sheet of the bank for the year 1922-23, from which it appears that on 31st March, 1923, the bank had in its treasury—

GOLD—		<i>Guilders.</i>
Netherlands gold coin	. . .	65,587,190
Foreign gold coin	. . .	90,185,174.47
Gold bullion	. . .	5,492,966.89
SILVER—		
Netherlands silver coins	. . .	59,722,945.50
Silver bullion	. . .	1,201,019.06

Of foreign bills, payable in gold outside Netherlands India, the bank held gldrs. 32,359,280.10.

The large stock of silver maintained is accounted for by the fact that the natives, having an innate love for the white metal, it is always necessary for a fair amount to be at hand in the bank's treasury.

It will, we think, be realised that the position occupied by the Java Bank *vis-à-vis* the other exchange banks is that of a Central Institution; and, generally speaking, it has always been found capable of carrying out the duties assigned to or required of it. Of necessity, the bank must be careful not to reduce its metallic reserve below the limits of safety, and, provided it does this, in normal times there should be no difficulty about its being able to lend money and to issue notes to any reasonable amount; in abnormal times, it might be necessary for such a bank to curtail its operations and to conserve its funds. The means by which the Java Bank can safeguard or strengthen its metallic reserve are practically the same as those of the great central banks of Europe, viz., by raising its rate of interest, in which case the other banks and the general market are compelled to follow. Further, by accumulating gold reserves abroad, and by carefully developing the transfer and "Giro" system, it can practically ensure money in circulation flowing into its treasury. In fine, it can by skilful management, to all intents and purposes, control the monetary and financial situation of Netherlands India.

As regards the Java Bank's foreign reserves, it remains to be added that these can be reinforced by the purchasing of three months' sight drafts on London or on Holland, with documents *re* Colonial produce attached; or it may, when necessary, purchase telegraphic transfers on Holland from the other banks and private concerns in Java. In buying such bills of exchange and telegraphic transfers for the purpose of strengthening its reserves, the Bank fulfils a useful function, for it supports the other operators in Netherlands India who desire to arrange the financing of shipments of produce to Europe and elsewhere.

As the exports generally exceed the imports, it is usually comparatively easy for Netherlands India to maintain its gold position owing to the favourable balance of trade. Nevertheless, the intervention of the Java Bank has often been found to be necessary, as Java is no different from any other country, and it does sometimes happen that the balance of trade may be temporarily reversed. An example of this is seen when money for the movement of new crops is required, and considerable funds must be forthcoming in Netherlands India—the bank then frequently comes to the aid of the shippers. The bank is obliged to intervene again in cases of heavy crop failures, when large supplies of rice and other Eastern produce have to be obtained from foreign countries; at such times the Java Bank, in conjunction with the other Exchange banks, comes forward and finances the imports.

At times of ease and abundance of money, the bank may not infrequently find itself in the reverse state, that is to say, there will be a large influx of metallic cash into its coffers. In these circumstances, the superabundance of metal may be kept either in the bank's vaults, or it may be remitted to Holland for conversion into a temporarily invested gold reserve, and so turned to profitable use on account of the bank.

The course of exchange during the period April 1st, 1922 to March 31st, 1923, was interesting. Thanks to the

support afforded by the Java Bank in keeping the Netherlands Indian guilder at par, the telegraphic transfer rate on Holland was quoted at the commencement of the year at  $99\frac{1}{4}$  (i.e.  $99\frac{1}{4}$  Netherlands Indian florins to 100 Dutch florins—the rate being, Batavia on Amsterdam). It was found possible to maintain this rate up to about the middle of May, 1922, after which the Java Bank felt justified in withdrawing the support it had hitherto lent, in the light of the then existing circumstances. Business immediately reverted to rates between 97 and  $97\frac{1}{2}$ , and there was a general feeling that the rate would reach  $98\frac{1}{2}$  during August and September. As a matter of fact, a sudden rush to remit balances which had hitherto been kept in the Colony resulted in the Java rate stiffening to  $97\frac{1}{2}$ , and the quotation when the year closed was 98. As the Java Bank no longer had a free hand in its metallic policy, it could not entirely control the rate on Holland. As a result of restricted earmarking facilities instituted by the Netherlands Bank, Amsterdam, a few years ago, the earmarked metal, once it is released to the Netherlands Bank, cannot be recovered again. The Java Bank was therefore, whenever temporary funds were required in Holland, forced to mortgage its earmarked metal to the Netherlands Bank. It was this factor that prevented the free handling of its metal reserves in Holland for the purpose of keeping up the exchange rates, Java on Holland. In the circumstances there was a wide scope for the operation of other forces in the exchange market, such as pure arbitrage business, to influence the rate on Holland.

Prior to 1919, the Batavia-Amsterdam rate deviated very slightly from the par value, and, to quote an example, the Batavia-London rate would rise and fall in sympathy with fluctuations in the Amsterdam-London rate of exchange. This tendency, which after all is logically in accordance with the Coinage Act governing the currencies of Netherlands India and Holland, has now ceased to have effect, for the simple reason that the Java Bank has been deprived of



the original guarantee whereby balances in Holland could be converted into metal when required. The relationship between the Batavia-London and Amsterdam-London rates has now, however, broken down, and the Batavia-London rate is primarily determined by the rates on London quoted in Eastern banking centres.

The Batavia-Amsterdam rate, which before 1919 formed practically the fixed basis of the Netherlands' Indian rate calculations on countries outside Holland, now functions in quite a different way, and all that can be said is that it simply registers the deviations between the Batavia-London and Amsterdam-London exchange rates.

Nevertheless, there is still a factor which must influence the future course of the Batavia-Amsterdam rate, and that is Netherlands India has still large amounts to remit to Holland for interest on the foreign debt of the Colony. It does not follow, however, that payments against loans placed in America and England will be effected through Holland. Under proper organisation it should be just as possible to send such remittances direct from Netherlands India, and if, and when this comes to pass, the Batavia-Holland rate of exchange will doubtless benefit.

Still another factor which is not without influence in the Batavia exchange market is to be found in the operations of certain banks, which, with the object of acquiring temporary funds cheaply in Netherlands India, sell ready foreign balances and cover by buying forward exchange. In Eastern parlance, this is termed a "budla" operation. It should be noted that very frequently the exchange banks in Java operate in the London market. They buy florin exchange on Amsterdam. The object is to accumulate funds in Holland on which they may draw from Java.

We now come to the paper currency. This consists entirely of the bank notes of the Java Bank, which is authorised to issue them under a charter granted to it by the Government, hitherto for periods of fifteen years. The last charter was granted on 31st March, 1906, and

expired on 31st March, 1921 ; and after that date an extension of one year on the existing terms was agreed to, pending the settlement of the terms of the new Charter. The Javasche Bank Bill was brought before Parliament in Holland in March, 1922, and was duly passed by the first Chamber of Representatives. On March 31st, 1922, the Javasche Bank Act became operative in the Netherlands East Indies. This Bank Act extends the privilege for the Java Bank to function as a Bank of Issue for fifteen years on the terms and conditions laid down in the Charter. Under the new Charter the Netherlands Government has a large participation in the bank's profits ; it received for the year 1922-23 Fl. 2,834,311.17, out of net profits of Fl. 5,263,533.04.

The smallest denomination of note the bank is permitted to issue under its charter is 5 florins, and at the present time it issues notes of 5, 10, 25, 50, 100, 200, 300, 500, and 1,000 florins. No restriction is placed on the amount which the bank may have in circulation at any one time ; neither is the excess over any certain maximum issue subject to any tax whatever. It may also withdraw from circulation as many of its issued notes as are presented. Against the notes in circulation, the bank is obliged to keep at all times, besides its credit balances, unpaid short usance drafts and a metallic reserve of at least two-fifths (i.e. 40 per cent.) in coin and bullion. At least three-quarters of this obligatory reserve must be kept in Netherlands India, and at least half of it must consist of Netherlands Indian legal tender currency and be held in the Colony.

Bank notes in circulation on 31st March, 1923, amounted to Fl. 269,410,185. The constitution of the reserves has already been enumerated.

Needless to say, the Dutch Government has not granted to the Java Bank the very considerable powers it possesses in monetary affairs in Netherlands India without some *quid pro quo* ; and although the Bank is, in the main, a

private limited company, and as such is granted a comparatively free hand in its internal affairs, yet the Government has a well-defined control over the management. The direction of affairs is in the hands of three managers, one of whom is the President and one the Secretary. The President is nominated for a period of five years by the Governor-General, and the appointment is subject to the approval of Her Majesty the Queen of the Netherlands. The proceedings of the bank are also supervised on behalf of the Government by a Government delegate, nominated by the Governor-General; and this delegate has a right to be present at all meetings of the board of directors. He has also the power to demand information on the bank's affairs at any time, and has the right to inspect its books and other documents should he deem it advisable. The Government control also extends in other directions, so that there is no likelihood of the bank's operations being in any way detrimental either to the interests of

The Balance Available for Distribution	Fls.
was	5,263,533-04
Shareholders 6% on Fl. 6,000,000	360,000
	<hr/>
Bonuses 11½% on Fl. 4,903,533-04	4,903,533 04
	563,906-30
	<hr/>
Reserve Fund ⅓ part of Fl. 4,339,626-74	4,339,626-74
	723,271-12
	<hr/>
	3,616,355-62
Shareholders 4% on	
Fl. 6,000,000	Fl. 240,000
The Government ditto	Fl. 240,000
	<hr/>
	480,000
	<hr/>
	3,136,355-62
Shareholders 5% on	
Fl. 6,000,000	Fl. 300,000
The Government 3 × ditto	900,000
	<hr/>
	1,200,000
	<hr/>
	1,936,355-62
Shareholders ⅓ part of	
Fl. 1,936,355-62	Fl. 242,044-45
The Government ⅔ part of do.	1,694,311-17
	<hr/>
	1,936,355-62
	<hr/>

the shareholders or to the general public. As far as the profits of the Java Bank are concerned, as we have mentioned earlier, under the new Bank Act of 1922, the Government receives a very liberal share of the profit. The figures on page 280 show the profit distribution for the year 1922-23.

The effect of this distribution was to make the Government's total share of the profits = Fl. 2,834,311.17, while the shareholders' participation was = Fl. 1,142,044.45.

The pre-eminence of the Java Bank's position in Netherlands India is our excuse for devoting so much space to its operations, but it is not the only bank of importance doing business there, as quite a number of Dutch and other Colonial and European banking institutions are to be found on the Islands. Most of the well-known Indian and Eastern banks are represented in one way or another; but, confining ourselves to those with actual branches, we find the Hongkong and Shanghai Banking Corporation, and the Chartered Bank of India, Australia, and China, each with branches or agencies in Batavia and Sourabaya. The business of these banks is largely that in connection with the trade of China, Japan, and the Straits Settlements.

Among the Dutch banks, the principal are: Nederlandsche Handel Maatschappij (the Netherlands Trading Society), and popularly known in Java as "The Factory"; Nederlandsch Indische Handelsbank (Netherlands India Commercial Bank). These two banks exist chiefly to promote the trade, industry, and agriculture of the Netherlands Indies, and not the least of their operations is the financing of the various agricultural societies and in stimulating agricultural enterprises in general. Another Dutch establishment is the Netherlands India Escompto Company, which does a general banking business.

Concerning the financing of imports and exports, there is little to be said, as the conditions differ in no material degree from those ruling on the other Eastern centres we

have so far examined. Trade between Java and Europe and other places is financed in various ways. Traders may draw bills or be drawn upon; the bills may be "clean," or have documents attached; they may be drawn under credits opened with bankers, or sent for collection without the credit formality. Arrangements may be made with London, or foreign, or Colonial banks to take the place of the importer and act as "acceptor" of bills, and the drawer may then discount or sell for what it will fetch the acceptance obtained from the bank. Payment, again, may be arranged by telegraphic transfer immediately the documents of title to the shipment are handed to the banker: the exporter may hypothecate his goods to the bank and receive on them a loan against the collateral security; the importer, for his part, may arrange to get delivery of goods under one or other of the forms of trust receipt extant, and, in return, undertake to sell the goods and pay the proceeds to the banker as and when received. In fact, we might go on enumerating the many methods by which importers pay, and exporters obtain payment for their produce and manufactures *ad infinitum*, but we refrain.

It will be necessary, however, to give, as in previous instances, details of the exchange quotations current in Netherlands India, as every trader, financier, or banker who has operations with that centre ought to be able to understand the way in which the various currencies in which operations may take place are quoted.

The following is typical of the exchange lists regularly

### EXCHANGE QUOTATIONS

ON LONDON.		ON PARIS	
Bank 4 m/s	11.27½	Bank Demand	Fcs. 240
„ Demand	11.47½	3 m/s Credits	250
„ T.T.	11.55		
Private 3 m/s Credits	11.20		
ON HOLLAND.		ON AMERICA.	
Bank 6 m/d	101½	Bank Demand	243½
„ 3	100½	3 m/s Credits	232½
„ T.T.	99½		
Private 3 m/d	101½		

ON SINGAPORE.		ON HONG-KONG.	
Bank Demand	136	Bank Demand	127½
ON INDIA.		ON JAPAN.	
Bank Demand	78	Bank Demand	124
		Private 90 d/s	117½

issued by the banks, and the only thing to notice is that the rates are based, so to speak, on the war standard. Rates between London and Holland in October, 1916, for example, were against London; and the same feature is, in consequence, apparent in the rate, Batavia on London.

The rates on London are fairly simple: "Bank 4 m/s 11·27½" is the price for bank bills payable in London four months and three days after sight; or, in other words, in exchange for this bill on London, the seller will receive 11 florins 27½ cents for every £1 sterling to be paid over to the buyer or his agent in London by the bank upon which the bill is drawn. "Bank Demand" indicates the number of florins and cents per £1 paid in exchange for a bank draft or bill of exchange drawn on London and payable on presentation. "T.T." is the rate for a telegraphic transfer: so if you want a person in London to be paid by the Bank's London Office so many pounds sterling immediately a message is flashed over the wires, you will have to hand to the bank in Java 11 florins 55 cents for every sovereign you wish your London friend to receive. "Private 3 m/s Credits" is the price for ordinary commercial or mercantile bills, also payable in London three months and three days after sight, the extra three days being, of course, the days of grace allowed under English law.

When we get to the quotations on Holland, the mind has to accustom itself to another method: "Bank 6 m/d 101½" means that for every 100 florins paid in Java, a bill, representing 101½ florins, drawn on a bank in Holland and payable six months after the date on the bill, can be purchased. It is the same with the other rates on Holland: they all indicate the number of florins which

will actually be paid in Holland in exchange for 100 florins handed over in, say, Batavia.

"Bank Demand on Paris 240" indicates that for every 100 florins paid in Java, the purchasers will receive a bill for 240 francs, payable on demand in Paris at a named bank. "3 m/s Credits 250" means that for the ordinary mercantile paper, 250 francs will be paid in Paris three months after sight for each 100 Java florins surrendered in Java. The American rates represent the number of gold dollars that will be paid in America in exchange for so many florins surrendered in Java. The American dollar is more than double the value of the Java florin: therefore, "Bank Demand 243½" means that for that amount of florins paid, one can obtain a demand bill drawn on, say, New York bankers for 100 good American gold dollars. With Singapore, "Bank Demand 136" shows that 100 Straits dollars are worth 136 Java florins; or, in other words, if I sell in Java a bank bill for \$100, payable on presentation at the branch of the Hong-Kong Bank in Singapore, I should expect to receive 136 florins or thereabouts in Netherlands India. With this explanation, the other rates in our list will perhaps be clear. "Hong-Kong 127¾" is the banks' selling price for 100 dollars payable in Hong-Kong; with India, as the rupee is worth only about 1s. 4d., the seller of florins receives 100 rupees for every 78 florins represented by his "Bank Demand" bill; and, finally, in the case of Japan, "124" is the number of florins required for every 100 yen payable on demand in Japan; and the "Private 90 d/s 117½" shows that a 100-yen mercantile bill payable in, say, Yokohama, ninety days after it is sighted there, can be purchased for 117½ florins paid in Java; and it will be apparent to the reader that in each case the more distant the date of payment of the bill, the fewer florins will need to be surrendered by the buyer in Java for each 100 units of the currency on the foreign centre; or, in some cases, more of the foreign currency will be receivable

for each 100 units (florins) of Java currency, which comes to the same thing: the two methods of quoting are merely another instance of the idiosyncrasies of these exchange lists, which seem to have been drawn up with a view to bewildering the much-enduring student of finance.

We now come to the trade of Java: The total value of the overseas trade for the year 1921 was valued at Fl. 2,267,702,000, comprising: Imports, Fl. 1,078,873,000, and Exports, Fl. 1,188,829,000. The percentage share of Great Britain in the import trade was 13·2 per cent. against 24·7 per cent., Holland's share. The Straits Settlements was next with a participation of 12·3 per cent.; the U.S.A.'s share was 10 per cent., and Japan's 7·9 per cent. British India sent 3·6 per cent. of the imports into the Netherlands Indies. Of the exports from the Colony, Holland took 17·9 per cent., Straits Settlements 15·1 per cent., Great Britain 4·3 per cent., the U.S.A. 5·9 per cent., and British India 15·5 per cent.

Among the principal imports, piece goods and yarns are easily first. The textile trade of the Netherlands East Indies is largely in the hands of British manufacturers, but competition from Japan has been increasing of late years, and that country has done a considerable trade in the cheaper qualities of piece goods. The value of the imports of these products into Java and Madura during 1922, and that of the British product, was as follows—

	From Japan. Fl.	From the U.K. Fl.
Cotton piece goods other than wearing apparel .	125,297,000	44,507,000
Woollens and half woollens .	1,056,829	433,897
Silk and half silk .	3,501,821	59,760
Wearing apparel . .	4,387,075	320,043

Other imports comprise metals and manufactures of metals, iron and steel products, building materials (particularly cement), motor vehicles and accessories, chemicals, and chemical manures.

The principal export from Java is sugar, of which



commodity 1,795,615 metric tons were despatched from the Colony in 1922. Great Britain, British India, and Hong-Kong take a large proportion of the sugar, and a considerable quantity also goes to Holland.

Rubber also bulks largely in the export figures, 31,659,000 kilogrammes being the quantity shipped from Java and Madura during 1922. The U.S.A. is the principal purchaser of this rubber. Coffee is another important export, the quantity despatched in 1922 being about 43,000,000 kilos. The U.S.A. was the best customer for this product in 1922, having taken 12,904 kilos; Holland and Great Britain each took about 8,500 kilos, while 6,954 kilos went to Singapore.

The exports are on a growing scale, the total shipped from Java in 1922 was 6,688,000 kilos. Great Britain and Australia were the largest customers, and Holland next.

The Java Bank recently made a computation of the export value of the various articles shipped from the Colony; Rubber was returned as worth Fl. 37,700,000; Tobacco, Fl. 57,000,000; Tea, Fl. 6,500,000; Gambir, Fl. 2,550,000; Copra, Fl. 2,290,000.

The great difficulty in giving statistics of trade from the Netherlands arises from the fact that quantities are given in the local returns and not values, and even then, the figures are given in kilogrammes; piculs, barrels, and kegs.

Generally speaking, there is no preferential treatment for Dutch over foreign imports and vessels: there is a general *ad valorem* import duty of 5 per cent. and some special duties ranging up to 12 per cent. on articles imported in Dutch East India. Export duties are levied in only a few special cases.

According to a recent report of the British Government Overseas Trade Department, an increase of 25 per cent. of the existing duties levied on many commodities was expected in 1922, but it failed to obtain the sanction of the authorities at home in Holland. Some changes were,

however, made in 1923, and these are summarized as follows—

Certain Netherlands East Indian industries were found to be in need of freedom from import duties in 1922-23 for various minerals; free importation is now allowed of minerals required for use in factories and other industrial undertakings for the production of goods destined for sale.

Various alterations have also been made in regard to the import duty previously levied on iron bars, chains, etc., and on copper and brass wire required for electrical manufactures.

It is reported that the authorities are contemplating increasing the duties on imported cigarettes by 50 per cent.

In regard to export duties it should be noted that for copra and pepper the export duty is 8 per cent. of the difference between the market price and the average cost price, plus 10 per cent., and that the cost of production is assessed by the Governor-General. Export duties are also imposed on petroleum, coffee, tea, tobacco, and alcohol.

### **Money, Weights, and Measures.**

There is no difference between the coins and weights and measures of Holland and those of the Dutch East Indies: both the home country and its Colonies have the same fixed legal nomenclature; but, for some curious reason or other, the colonists in the East still use the term "guilder" instead of florin. The latest return of the British Government's Department of Overseas Trade gives the following weights and measures in use—

1 paal (in Java) = 1,507 metres.

1 paal (in Sumatra) = 1,852 metres.

1 sq. paal = 227 hectares = 7,096 sq. metres = 320 bouws = 561.18 acres.

1 bouw = 1.7537 acres.

1 kati = .6176 kg. = 1.36 lbs.

100 katties = 1 picul = 61.76 kg.

1 gangtang = 8 batoks.

14 gangtangs = 1 picul.

1 el = 27 inches.

The Government, of course, adheres to the metric system of weights and measures. However, some of the Eastern weights and measures have crept into use in the Dutch East Indies, and for purposes of reference we give these.

#### WEIGHTS

The Amsterdamsch pond = 1.09 lbs. avoirdupois

„ picul (*or* pikol) =  $133\frac{1}{3}$  „ „

„ catty =  $1\frac{1}{3}$  „ „

The reader who has perused the preceding chapters will probably not need to be reminded that 100 catties = 1 picul.

#### MEASURES

Tjengkal = 4 yds.

Bouw =  $1\frac{3}{4}$  acres.

#### MONEY

Gold.—10 guilder (*or* florin) piece  $\left\{ \begin{array}{l} = 6.720 \text{ grammes} \\ \cdot 900 \text{ fine} = \\ 6.048 \text{ grammes} \\ \text{fine gold.} \end{array} \right.$

5 „ ( „ ) „

Silver.—1 guilder (*or* florin) = 100 cents, weighing 10 grammes .945 fine = 9.45 grammes fine silver.

$\frac{1}{2}$  guilder,  $\frac{1}{4}$  guilder.

Nickel.—5 cents.

Bronze.— $2\frac{1}{2}$  cents, 1 cent,  $\frac{1}{2}$  cent.

Paper.—Notes of the Java Bank: Fl. 1,  $2\frac{1}{2}$ , 5, 10, 25, 50, 100, 200, 300, 500, 1,000.

It is understood that the smaller notes (Fl. 1 and Fl. 2) are being withdrawn from circulation.

By way of experiment and at the suggestion of the Minister for the Colonies, guilder and half-guilder silver pieces of a fineness of 720 thousandths, as approved by an Emergency Coinage Act of 1919, were put into circulation

in 1922 in the Netherlands East Indies. The results of this experiment should largely show to what extent, if any, the new currency finds favour with the public, but they cannot yet be determined. There are at present in circulation Dutch silver coins of varying fineness as well as currency notes, which are always popular with the people. The question of whether currency notes, uncovered or partly covered only, are to continue as a medium of payment in the Colony will, in all probability be settled during 1924.

A Government Commission has been appointed for the purpose of studying the problem of a separation of the Dutch and Netherlands Indian currencies. It has failed so far to arrive at any definite conclusion, it being considered that the time is not yet ripe for a decision to be given in the matter.

In this connection the Java Bank, in its last report, points out that the Motherland will suffer more than the Colonies by the separation of the two currencies. Holland as a commencement, will have to withdraw from the Colonies the baser silver coins which she has issued, since these would no longer pass as legal tender in the event of currency separation. This separation would mean that Netherlands India would have to adopt a definite coinage system of her own, based on gold, just as in Holland. Minting would have to be left to the Netherlands Indies, and how much or how little to be minted would naturally depend upon the proportion of Dutch silver withdrawn from circulation and returned to Holland. Separation of currencies would entail at the same time, the erection of costly plant in Netherlands India for coinage purposes, and the Colonial Finances at the present time are not strong enough to warrant the expenditure. However, the chief effect of currency separation would be a loosening of the financial ties that bind Netherlands India to Holland, and this would necessarily result in the Colony turning more to London and New York than she does at present for financing her products and industries,

## CHAPTER XVJII

### FRENCH INDO-CHINA

INFORMATION ON ITS MONEY, ITS FIDUCIARY CIRCULATION,  
ITS EXCHANGE, AND ITS WEIGHTS AND MEASURES ; ALSO  
ON ITS PRINCIPAL IMPORTS AND EXPORTS—PONDICHERY :  
ITS TRADE, MONEY, AND EXCHANGE

THE approximate area of the whole of French Indo-China is about 670,000 square kilometres (256,000 square miles), and its population 19,747,431, of which, in 1921, excluding military forces, 23,700 were Europeans. The outstanding debt on 1st January, 1920, was Fcs. 403,000,000 = 20·40 francs per head of population.

In regard to the history of the currency, there is not a great deal to be written. The currency we need first to notice was introduced by the Spaniards—the piastre—and appears to have been the early type of the pillar dollar, previously noticed. The Spaniards when first visiting the country had no suitable commodities to offer the Chinese: therefore, in exchange for native produce they seem to have given these old silver coins, which were in circulation all over the East. When the French occupation took place, a coin similar in weight and fineness to the Mexican dollar or piastre was accepted by the Chinese in payment for supplies to the French Army, and in course of time its circulation spread through the whole of Annam. For a time, zinc coins, called “sapaque,” were also used, but the weight of these latter militated against their common use; and we read in the Report of the Commission on International Exchange, that “it took an artillery baggage cart to exchange 1,000 francs of ligatures of sapaques, since they represented not less than the weight

of a barrel and a half, and in the market a chicken weighed sometimes less than its price in coin."<sup>1</sup> Silver, as is the case everywhere throughout the Far East, was always in evidence; and although the ligature of sapaques, in conjunction with the ounce of silver, has been shown to have carried out the function of money of account, the ounce of silver was the official monetary unit exclusively employed in Government documents, etc.; while the ligature was the practical monetary unit utilised by private persons, and in many instances served even for administrative purposes.<sup>2</sup>

Later on, in 1859, the French introduced a commercial piastre, or trade dollar, the intrinsic worth of which, based on the price of silver at that time, was approximately 5.31 francs. Its price, however, has suffered many vicissitudes and variations owing to the depreciation in the value of silver; and although many reports and suggestions have been made in regard to the placing of the currency on a more suitable basis, the French Government has not so far seen fit to place the Colony on the same standard as that in vogue in France. Instead, it has kept the country on a silver basis, and endeavours to maintain exchange between the silver dollar and the gold franc in a more or less arbitrary manner. Under a law (or decree) which came into operation on 30th December, 1886, the Governor-General has the power, as far as all Government transactions are concerned, to fix the rate of exchange between the piastre and the franc. This rate of exchange is fixed as near as possible to the commercial rate; and, whenever the commercial rate varies materially, the Governor-General alters his official rate.

"A variation of more than 10 centimes would never be allowed, and ordinarily the variation is only one or two centimes. It seems to be the habit of the

<sup>1</sup> Washington Edition, 1903, p. 382.

<sup>2</sup> Cf. *La Monnaie, le Crédit et le Change*, p. 356. Aug. Arnauné (Ancien Directeur de l'Administration des Monnaies et Des Médailles), Paris.

Governor-General to keep the rate a trifle higher than the commercial rate, so that in receiving the taxes, etc., there will be a slight gain to the Government.”<sup>1</sup>

The reason the Government is obliged to protect itself in this manner is this: its receipts are calculated in piastres, but the expenditure is largely calculated in francs; consequently, if there were to be a fall in the price of silver, the piastre would fall too, and the equilibrium between the two currencies be upset. Without this safeguard, it may conceivably happen, for instance, that the Government, while receiving taxes at the rate of 214, was making its expenditure in currency at the rate of 232, and thus netting a very considerable loss. On the other hand, if silver rose, the exchange value of the piastre would rise too; and the Government, if it had entirely to depend on such fluctuations, would get a profit. Here is a case in point: on 7th January, 1916, the rate for piastres was Fr. 2·65c.; on 7th September in the same year, following the appreciation in the price of silver, the exchange was quoted Fr. 3·05. However, by working on a rate fixed from time to time, both parties—the taxpayer and the Government—are protected; and with the exception of the slight profit to which we have referred as accruing to the Government, neither side gains an advantage over the other in the matter of exchange. The franc, it should be noted, is merely a money of account, and does not circulate in French Indo-China.

There is no doubt the French Government has made determined efforts from time to time to introduce the French monetary system in its entirety into Indo-China; but as each attempt has been more or less of a failure, it is not likely to repeat its experiments in that direction.

We may say, therefore, that French Indo-China is a monometallic silver country, and the value of its currency

<sup>1</sup> Cf. Report on the Stability of International Exchange, p. 458 (Washington Government).

with reference to silver follows the fluctuations of the white metal on the London market. The deviations in its exchange, while arising from the upward and downward movement in the price of silver, are also based upon the economic situation of the country, which is dependent in turn on the relation of exports to imports: the balance of the former over the latter exercises an influence on exchange hardly less important than the price of silver.

The French commercial piastre, or, as some people prefer to call it, the trade dollar, is the monetary unit of the country, and it is, moreover, the sole legal currency. An American trade dollar which circulated for some time has long since disappeared, whatever quantity there was having been exported or melted down by the natives for silver bullion. There are, however, other coins, which, as a matter of general interest, we give below—

		WEIGHT.	FINENESS.
SILVER.	1 piastre (100 cents)	27 grammes	900/1,000
	$\frac{1}{2}$ " ( 50 " )	13 " "	
	$\frac{1}{4}$ " ( 20 " )	5 " "	835/1,000
	$\frac{1}{10}$ " ( 10 " )	2 " "	"
BRONZE.	1 cent.	10 grammes	

**ZINC : Sapèque.**—This piece of money has no legal value, and its use is confined exclusively to the natives. The coins have a square hole pierced through the centre, which enables them to be threaded on a string or cord in quantities of 100 sapèque, called ligatures. The minting, or rather manufacture, of these zinc pieces is left in the hands of the Annam Government, but their issue has been entirely suspended for some years; and, in consequence, this native currency—for it is little else—is becoming extremely rare and its price, owing to scarcity, continues to rise. For example, thirty years ago 3,000 sapèque were obtainable for 1 piastre, but to-day it is not possible to procure more than 600 to 800 in exchange for the piastre. In 1878, according to an authority already quoted, some attempt was made to put into circulation



ligatures of French manufacture. At Saigon Arsenal, a quantity of 1-centime pieces were pierced with the necessary hole to make them resemble sapèques, and set free on the market. The signal failure of this move was an object lesson to the French—the pieces all returned to the Government Treasury! As M. Arnauné says, the holes badly pierced in the coins made them lose nearly a tenth of their value, consequently it was impossible to get the natives to accept them.<sup>1</sup>

As regards fiduciary issues, the Banque de l'Indo-Chine has the sole right to issue bank notes, which are in denominations of 1, 5, 20, and 100 piastres. The authorized issue of the Bank is at present 120 million piastres, and as a precaution against over-issue, the bank's note circulation is restricted to five times its metallic reserve. On June 30th, 1923, the notes in circulation stood at 97,425,646 piastres, and the reserve was 29,438,091 piastres.

Under the French Act of October, 1919, the Banque de l'Indo-Chine was permitted to issue notes of as low denominations as 10 and 20 cents. These notes bear the inscription in French "payable to bearer in Indo-China in specie," and as they are somewhat of a monetary curiosity we reproduce two of the notes.

The Banque de l'Indo-Chine has branches at Saigon, Pnom-Penh, Battambang, Tourane, Haiphong, and Hanoi; and the only other banks of importance doing business in Indo-China are: The Chartered Bank of India, Australia, and China, and the Hongkong and Shanghai Banking Corporation, each of which has branches or agencies at Saigon, Haiphong, and Hanoi.

Operations in exchange are, consequently, practically confined to business between Indo-China and those places at which the three banks in question have branches. Exchange quotations are fixed on the following basis—

*Paris.* X Francs for 1 piastre at sight or three months' sight.

<sup>1</sup> *Arnauné, La Monnaie, etc., p. 365.*



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*London.* X Pence for 1 piastre at sight or three months' sight.

*Hong-Kong.* Premium, discount, or par for 100 Hong-Kong dollars.

*Singapore.* Premium on 100 Singapore dollars.

*Manila.* Premium, discount, or par for 100 Philippine pesos.

Bearing this in mind, the reader will be able easily to comprehend the following exchange list, which was in force on 10th January, 1916—

PARIS.	{ Banque à vue . . . . .	2F.65
	{ Credits et documents à 3 mois de vue . . . . .	2F.75
LONDRES.	{ Banque à vue . . . . .	1s. 10½d.
	{ Credits et documents à 3 mois de vue . . . . .	1s. 11½d.
HONG-KONG.	{ Banque à vue . . . . .	Pair
	{ Credits et documents à 15 jours de vue . . . . .	2% escompte
SINGAPORE.	{ Banque à vue . . . . .	23% prime
	{ Credits et documents à 30 jours de vue . . . . .	20% prime
MANILLE.	Credits et documents à 30 jours de vue 94½	
JAPAN.	Credits et documents à 30 jours de vue 94	

The first quotation on Paris shows that for each piastre paid in Saigon the bank would sell a sight bill on Paris for Frs. 2.65c. The second Paris rate is that for bills purchased under first-class bankers' credits and for bills with shipping documents attached, payable in Paris three months after sight; and in view of the fact that the buyer is out of his money for three months, plus the time the bill takes to reach France, 10 centimes more is allowed in the rate. London rates are similarly explained, only in this case we get shillings and pence per piastre. The Hong-Kong quotation on the day in question was at par, that is to say, for every 100 piastres surrendered in Indo-China, 100 Hong-Kong dollars would be paid in Hong-Kong on arrival of the sight bill there. The quotation for bills under credits, and bills with documents attached, means 2 per cent. discount: in other words, the Indo-China piastre was for the time being worth more than the

Hong-Kong dollar, and consequently the person selling such paper to a bank would need to hand over 102 Hong-Kong dollars for every 100 piastres paid him in Saigon. With Singapore, we find a premium instead of a discount to deal with: for bank sight bills the buyer will have to pay 123 Indo-China piastres for every 100 Singapore dollars he requires to be at his disposal in the Straits; the reason is, of course, that the Singapore dollar is worth more than the Saigon piastre or dollar. In the case of the second Singapore quotation, as the buyer has to wait three months before he can get back his money, the premium is 3 per cent. less. With Manila, the quotation is more simple: "94½" equals the number of piastres to be given in exchange for 100 Philippine pesos payable thirty days after sight in Manila, and Japan indicates that 94 piastres are worth 100 Japanese yen at thirty days after the bill arrives in Japan.

The stamp duty on bills of exchange is half per mille ( $\frac{1}{2}$  o/oo), and, on cheques, 8 cents, which is equivalent to 20 centimes French currency.

### **Weights and Measures.**

The French metric system is used for practically all purposes in Indo-China, and it is hardly necessary to repeat those weights and measures here; but the native weight, which serves as a basis for dealings in agricultural produce (rice, paddy, maize, etc.), is the picul, which varies, viz.—

For all Indo-China, the legal picul—that is, the picul used for the administration of taxation and excise, and so on—this equals 60 kilogrammes.

For Saigon, there is what is known as the commercial picul, for rice, and this is the equivalent of 60 kilogrammes 700 grammes, or 134 lbs. The commercial picul for paddy equals 68 kilogrammes.

### **Import Duties.**

(*Droits d'Entrée.*) These are the same as those in the

general list of Customs duties for France, with a few exceptions or modifications.

## Export Duties.

(*Droits de Sortie.*) Rice—

1. A tax representative of the land tax for no matter what destination, viz.—

	<i>Per 100 Kilogr.</i>
Paddy and rice cargo containing more than 33% of paddy . . . . .	\$0.24
Rice cargo, containing less than 33% of paddy . . . . .	0.30
White rice . . . . .	0.38

2. Customs duties, except for France and her Colonies—

Paddy and rice cargo containing more than 33% of paddy . . . . .	\$3.04
Rice cargo containing less than 33% of paddy . . . . .	1.68
White rice . . . . .	1.28
Broken rice and meal . . . . .	0.12

There are also a few more duties, none of which is important, with the exception perhaps of the “*Droits de Statistique* (statistical duty),” which affects all imports and exports. It is: 4 centimes per packet on all merchandise in bags, sacks, bales, or casks; 4 centimes per 1,000 kilos, or per cubic metre on merchandise in bulk; 4 centimes per head on animals, living or dead.

The principal ports of the country are: Saigon (Cochin China), Pnom-Penh (Cambodge), Tourance (Annam), Haiphong (Tonkin).

Haiphong is the chief centre for the exports, Hanoi the centre for the imports.

The chief imports are cotton tissues, silk tissues, jute (or gunny) bags, and metal work.

The principal exports are: Rice, which is far and away the most important of all; rubber; dried and salted fish; maize; and oil.

Of the exports, the first on the list, rice, is principally consumed in the Far East, China being the French Colony's best customer for this product. Everywhere in the Far East, Indo-Chinese rice finds an “assured and, one may

say, almost unlimited market. Rice is of such great importance in the East as an article of food, that its production may be developed without the least fear of over-supplying the market. It is interesting to note that France consumes an increasing quantity of Indo-Chinese rice. She buys an average of 200,000 tons annually. Indo-Chinese rice is protected on the French market, where it enters free of duty, by the Customs duties which fall to-day on foreign rice (three francs per 100 kilogrammes on paddies, six francs on broken, and eight francs on whole rice)."<sup>1</sup> The value of the rice exported from French Indo-China in 1922 was F. 579,345,000. Exports of rubber are also growing in importance. The value of the rubber exported in 1922 was F. 36,358,000, and about three-quarters of this amount was taken by France. The third and fourth items—maize and oil—are practically all taken by France. *Poissons, secs et sales* (dried and salted fish), are all sold to Hong-Kong and Singapore. Hides are distributed in the proportion of half to France, one quarter to England, and the remainder to Singapore and Hong-Kong. Pepper and copra are both sent to France. Of the last item on the export list—*soies grèges* (raw silk)—France and Siam take about an eighth each of the total quantity; while the remaining three-fourths find their way to Hong-Kong and Singapore, to which *entrepôts* are consigned practically all the other items of export not specially mentioned, with the exception of zinc ore, which is now all purchased by France. The exports sent to Great Britain from Indo-China during 1922 were valued at £164,000,000.

Hong-Kong seems to be taking a growing share in the import trade, particularly in regard to tea, of which commodity Hong-Kong sent 99 per cent. of the total import in 1922, valued at Fcs. 5,688,000. Hong-Kong and China are also large participants in food imports.

Among the other imports we find that *tissus de coton*

<sup>1</sup> *The Colonial Tariff Policy of France* (A. Girault), p. 205.

(cotton fabrics and other piece-goods) in 1922 were valued at Fcs. 126,636,000, about four-fifths of which emanate from France, the remaining fifth being consigned by other Colonies. *Tissus de soie* (silk fabrics) are imported from China and Japan; machinery and mechanical imports are chiefly from France, but Great Britain takes a small share in the trade. Petroleum imports are about equally divided between the United States of America and the Dutch Indies, and most of the other articles are sent direct by France. The imports from Great Britain into Indo-China in 1922 were of a declared value of £240,000.

### PONDICHERRY

Now let us turn to Pondicherry, without reference to which our chapter on "Indo-China" would be incomplete.

The imports of Pondicherry are of no relative importance, and consist mainly of wines, spirits, etc., which are admitted free of duty, and are consequently available at much lower prices than in British India ports.

The principal article exported is the ground-nut (*l'arachide*). Ground-nuts are exported exclusively to Marseilles. Concerning the trade in this particular product, the British Consular Report issued in 1914<sup>1</sup> states that, although a very large portion of the kernels exported from Pondicherry are grown in British territory, this produce is nevertheless by far the most important factor in the prosperity of the Colony, and the trade is a very profitable one to the *ryots* (growers). The supply of nuts has of late years increased, but the demand has kept pace with it, and prices have ruled very high—from 30 to 40 rupees per French candy (the candy is equal to three bags of 80 kilogrammes each). Other exports are: Cotton cloth (chiefly blue-dyed material), which goes to the Straits Settlements and Indian ports; oil cake; areca-nuts; thread cotton; etc.

<sup>1</sup> *Trade of Pondicherry and Karikal*—August, 1914. Cd. 7048—188. "Annual Series, No. 5371."



In 1921 the total imports were valued at Fcs. 23,583,000, and the exports at Fcs. 24,554,000.

**Money.**

The Indian rupee is the only coin circulating in Pondicherry; in fact, in all French-Indian territory (French Settlements).

**Exchange.**

Rates are quoted as follows—

On PARIS.—So many francs for 1 rupee at sight.

So many francs for 1 rupee at three months' sight.

On LONDON.—So many pence for 1 rupee at sight.

So many pence for 1 rupee at three months' sight.

## CHAPTER XIX

### THE PHILIPPINE ISLANDS

THE CURRENCY BEFORE AND AFTER AMERICAN OCCUPATION :  
TRANSITION FROM A DEPRECIATED SILVER STANDARD TO  
THE GOLD-EXCHANGE SYSTEM—THE TREND OF ITS TRADE

THE Philippine Islands are situated north of Borneo, east of the China Sea, and north of the Sea of Celebes. The group consists of about 3,141, including islands and islets, the principal islands being Luzon, Mindanas, Samar, Mindoro, and Negros. The total area, inclusive of the Sulu Archipelago, is approximately 115,000 square miles. The population, according to the census of 1918, is 10,314,310. This makes the density of population about 69 to the square mile.

The acquisition of the Islands by the United States dates from the Spanish-American War of 1898, and the details of the great naval battle fought at Manila are too well within the memory of readers to need more than a passing reference here. It will be remembered that the Spanish Fleet was defeated and the Port of Manila subsequently bombarded; but it took some time to subdue the warlike Filipinos, who, notwithstanding the cession of the Islands by Spain to the United States by the Treaty signed by the Peace Commissioners on 10th December, 1898, managed to maintain a harassing guerilla warfare for many months. All now, however, is well, and the whole of the Archipelago is under the control of a Civil Government. The actual date of acquisition of the Islands by the United States was 11th April, 1899.

The principal ports and towns are: Manila (also a province), which is what might be called the commercial capital, and is situated in the south-west of Luzon, on

Manila Bay; Luzon is the summer capital; then there are Yloilo, Cebu, Laoag, Neuva Caceres, and Albay; besides a number of smaller cities of less importance.

Up to the occupation by the United States Army, and for some considerable time afterwards, the currency of the Philippine Islands was, to put it mildly, in a chaotic condition—a state of affairs hardly less deplorable than that in which the American Government found the Civil Administration to be. The Islands had for many years maintained some semblance of a silver standard; but, owing to a long period of mismanagement and misunderstanding by the Spanish authorities, the Philippines possessed practically no standard coinage of its own, either legal or subsidiary. What legal tender money there was in circulation was confined almost exclusively to the Mexican dollars, which, as we have seen, creep up so mysteriously all over the East. Fluctuations in the value of this dollar were a fruitful cause of trouble, and the steps taken by the Spanish Government to stabilise its currency were in many respects the same as those taken by other silver countries similarly situated. In 1877 they tried to stem the fall by prohibiting the importation of all Mexican dollars issued subsequent to that year; it was a weak remedy at best, and it is not surprising to find that the Islanders, or rather those who were responsible for supplying them with currency, systematically evaded the new provision and continued to smuggle in silver Mexicans. With the continued depreciation in silver, gold, of which a little had been previously in circulation, disappeared, and after 1884 it ceased to circulate.

The Spanish Government did, it appears, have in hand some half-hearted scheme under which it had hoped to give the Philippines a legal currency: it fixed upon a Filipino peso with sub-divisions, and even got so far as coining a small quantity of the new money, which it expected would suffice, in conjunction with Spanish subsidiary coin, to overcome the discredited state of the

Colony's monetary standard. The new pesos were, it seems, lighter than the Mexican dollar; but as the number minted was not more than sufficient for the purposes of currency in the Philippine Islands, they circulated at par with the Mexicans. But perhaps the story is best told in the words of an eminent American currency expert, who subsequently investigated the problem on the spot.<sup>1</sup>

"It was fortunate for the Islands," he says, "that these coins, by reason of their light weight, were not exportable to advantage as bullion, and therefore remained in circulation when other forms of money tended to disappear. A few subsidiary pieces corresponding to the silver pesos had been coined by the Spanish Government exclusively for use in the Philippines. The other subsidiary pieces, however, and most of the minor coins were the same as those used in Spain. The peseta piece of Spain, worth nearly 20 cents in American money, was at one time maintained at this value in Spain and, even when Spanish finances became deranged, did not decline in its exchange value in gold so rapidly as the Mexican silver dollar. The consequence was to destroy the relationship between the Mexican dollar and the subsidiary coins. The Spanish peseta came to be worth about 15 cents in gold in Spain, while as a quotient part of the Mexican peso it would pass for perhaps 10 cents or less in gold value at Manila. The result of these conditions was to tempt shrewd bankers to gather up all the Spanish subsidiary and minor coins in the Philippines and send them to Madrid, making in the transaction a profit in the neighbourhood of 50 per cent. By such operations the Philippines were almost denuded of small Spanish currency, and into this vacuum flowed to some extent the coins of the United

<sup>1</sup> The late Charles A. Conant, in the *Annals of the American Academy of Political and Social Sciences* for November, 1902. Quoted by the American Committee on the Stability of International Exchange, in their 1913 Report, p. 393 *et seq.*

States, having a recognised value of more than twice the corresponding pieces of Spanish and Mexican coinage."

The conditions with which the Americans had to contend were quite new to them, and certainly for the first two or three years of their occupation, monetary conditions in the Philippines can only be described as 'confusion worse confounded'. It was soon abundantly clear that to introduce American money into the Islands was not going to be the easy task some of the authorities there thought. The difficulty lay, not in the introduction of a new coinage, but in the getting of it into circulation as the accepted medium of exchange. Then silver fluctuations were erratic in the extreme: it was a hard job to drill into the minds of the Filipinos the comparative values of the new American currency; and, as far as places like Manila and Yloilo were concerned, it was fairly plain that exchange was in the hands of and controlled by the branches of the Eastern banks established there. Resort was then had to a Commission, the outcome of whose labours was that the Mexican silver dollars and the Spanish-Filipino dollars were made receivable in payment of public dues in the ratio of two Mexican dollars to one dollar American gold; and for a time the new system answered well enough, but other troubles were in store. In the summer of 1900 there arose in China a great demand for currency to pay the Western forces congregated there as the outcome of the "Boxer" rising; the available supply of Mexican dollars in China quickly became exhausted, and the effects were soon apparent in Manila, where enquiries were being made for stocks of the popular coin. In the circumstances, it naturally followed that the exchange value of the Mexican dollar commenced to rise, and before very long its value was considerably higher than 50 cents in gold. With the exchange value in China higher than the official Manila rate, it was inevitable for the coins to flow to the best market, and they soon began to leave the Philippines at an alarming rate. The writer we have just quoted

estimated that between 27th August and 1st November, 1900, two British banks in Manila exported between them Mexican dollars 2,087,500.

Once a movement of this kind had started, it was difficult to check it; and the Philippines continued to be denuded of their silver coins, despite various expedients adopted by the Government to check the outflow—even a 10 per cent. export duty on silver failed to stop the export of dollars—which only ceased after the European troops had left China and the demand from that quarter no longer existed.

In some respects these experiences were useful, at least to the Filipinos, since they enabled them to become more familiar with American currency, which had come into use failing any other medium of exchange for carrying on the trade of the Colony.

The cup of the Philippines Government, however, was even yet not full, and it was soon sorely tried in another direction. In course of time, the Mexican dollar fell below the enhanced gold value of 50 cents (above referred to), and the dollars promptly began to flow back again to the Philippines from China and other places—if not quite so fast as they had previously departed, fast enough to drive out of circulation the prevailing American currency, which, in its turn, began to disappear. American currency, in whatever form it existed, was, of course, quite well known to the banks, which could readily dispose of it as and when required in exchange transactions; and it was not long before a considerable portion of the amount previously held in the Islands was parted with by the banks in the ordinary course of business. It was no part of the banks' policy to allow money to remain idle; and, having branches in many other Eastern centres, they were obviously in a position to use funds to the best advantage in inter-branch finance, true to the function of exchange banking, which, other things being equal, is to use funds where they will bring in the highest return.

Matters were not long to be left in this unsatisfactory

state, however. The Americans had witnessed the evils of the *laissez-faire* policy under the Spanish rule and, with their customary alertness, they set to work to devise other methods of maintaining exchange. Experts were sent to the Philippines to consult with officials there and to formulate new schemes; and, as a result of their concerted efforts, a Bill was ultimately presented to the U.S. Congress and, in due course, passed. We say, "in due course," because when the Bill came to enter the various stages, difficulties arose between the different House Committees and the U.S. Senate: each had its own ideas on the subject of currency and wanted to see them carried out. The members of the House Committee were of opinion that the adoption of a Gold Standard was the panacea for all exchange fluctuations in the Philippines, including, as it did, measures for maintaining certain proposed silver coins at par with the gold currency of the United States of America. But the Senate Committee remained unconvinced, and considered it imprudent at that transitory stage to attempt to establish the gold standard in the new Colony.

The other proposal before Senate was to continue the currency on a silver basis, but to substitute a distinctive American for the circulating Mexican dollar. No agreement, however, could be reached as to which standard to adopt, though, in view of the pressing need in the Philippines for subsidiary coins, a compromise was effected by which it was agreed that the Government of the Philippine Islands should be allowed to coin and issue for use in the Islands the following coins—

A piece of	50	centavos,	weighing	192-9/10	grains.
"	20	"	"	77-16/100	"
"	10	"	"	38-58/100	"

These silver coins were 900 fine—900 parts pure silver, the remaining 100 parts of copper alloy. Further powers were given to the Philippines Government to issue subsidiary coins of the value of  $\frac{1}{2}$  centavo, 1 centavo, and 5 centavos.

Other provisions were made to enable the Insular Government to obtain the silver necessary for the coinage of the new coins, and in course of time they were minted and passed into circulation. In this manner, the Government succeeded in tiding over its currency difficulties for the time being: the new measure certainly enabled the Americans gradually to educate the Filipinos to the new order of things.

This particular piece of legislation was accepted by Congress on 30th June, and finally approved by the President on 1st July, 1902; it was entitled: "An Act temporarily to provide for the administration of the affairs of civil Government in the Philippine Islands, and for other purposes."

About eight months later, on 2nd March, 1903, the manifest and universally acknowledged hardships of an unstable currency, disastrous alike to all business interests and to the Government, led the U.S. Congress to pass another law, termed—to use the official phraseology—"An act to establish a standard of value and to provide for a coinage system in the Philippine Islands." The provisions were not exactly new, but were really an embodiment of the recommendations and suggestions made by the Philippines Commission in each of its three reports. It provided for a monetary unit in the Philippines of 1 peso gold, weighing  $12\frac{9}{10}$  grains ( $\frac{9}{10}$ ths fine), which was to become the unit of value when the Government of the Philippine Islands had coined and ready for issue, or in circulation, not less than 5,000,000 of the 75,000,000 silver pesos, also provided for in the Act. The latter coin was ordained to weigh 416 gr. (900 fine).

These silver pesos were made legal tender for all debts, public and private, and were also legal tender for 50 cents in the gold money of the United States. The latter provision was expressed in the Act thus: "And the gold coins of the United States at the rate of one dollar for two pesos hereinafter authorised to be coined shall be legal



tender for all debts, public and private, in the Philippine Islands."

The section of the Act of 1893 with which students of currency are more particularly concerned was No. 6, which, among other things, gave the Government of the Philippine Islands power to adopt measures necessary for the maintenance of the value of the silver Philippines' peso at the rate of one gold peso. In order to maintain such parity between the said Philippine pesos and the gold pesos, the Government was authorised to issue temporary certificates of indebtedness, bearing interest at a rate not to exceed 4 per cent. annually, in denominations of 25 dollars, or 50 pesos, or some multiple of such sum. These were to be "redeemable in gold coin of the United States, or in lawful money of the Philippine Islands." Further, it was provided that the proceeds of these certificates should be used exclusively for the maintenance of the gold parity, with the single exception that a sum not exceeding 3,000,000 dollars at any one time could be used as a continuing credit for the purchase of silver bullion in execution of the provisions of the Act. The amount of these certificates allowed to be outstanding at any one time was fixed at 10,000,000 dollars or 20,000,000 pesos.

Later, it became necessary to pass two additional Acts (No. 696 and No. 792—Acts of the Philippine Commission), in order to put the issue of the silver certificates on a proper basis and to provide for additional issues.

The only other section in the Coinage Act (No. 137 of 2nd March, 1903) we need note is Section 4, which authorised the coinage of a silver 50-centavos piece, weighing 208 grains; one of 20 centavos, weighing  $83\frac{10}{100}$  grains; and a coin of the denomination of 10 centavos, weighing  $41\frac{55}{100}$  grains all 900 fine. These silver subsidiary coins were legal tender to the amount of 10 dollars.

In lieu of the purchase of silver bullion, it was arranged that the Government could, in its discretion, re-coin any

of the silver pieces provided for in the former Act of 1st July, 1902.

The benefits of the new system were immediately felt, not only in financial circles, but in the business community of the Islands; and it was considered that, at last, order had arisen out of chaos, and a definite step towards the full attainment of the Gold Exchange Standard had been made. Early in the inauguration of the new currency, however, the question arose as to what should be done with the Mexican dollar and the Spanish-Filipino coins circulating in the Islands. Banks and other dealers in money were keen advocates of Government prohibition of the import of Mexican dollars, and they urged the Government to redeem all the existing local currency—both Mexican and Spanish-Filipino—at a uniform ratio of 1 peso of the new currency for 1 peso of the old. The Government rightly resisted these bold and not altogether disinterested proposals, for it was not slow to perceive that the effect of such action would have been immediately to give a fictitious value to the local currency then in the Islands and so enable those who were able to collect large quantities to make a heavy profit on the exchange to the corresponding disadvantage of the Government. For the time being, therefore, it was decided to allow the matter to remain in abeyance until experience showed the correct course to take; and Mexican dollars, consequently, continued to enter the Islands without let or hindrance. The Insular Government, nevertheless, quite recognised that as a measure of good faith it would eventually be its duty to take some just action in regard to the redemption of the Spanish-Filipino coins, but the decision was postponed until a more propitious season.

Having committed itself to the definite establishment of the gold exchange standard, the Government's next step was to set up the machinery for the institution of a Gold Standard Fund; and matters were so satisfactorily

advanced that, on 10th October, 1903, the "Gold Reserve Act of the Philippine Commission (No. 938)" was passed. It was designated "An Act constituting a gold standard fund in the Insular Treasury, to be used for the purpose of maintaining the parity of the silver Philippine peso with the gold standard peso, etc." \*Space precludes our giving full details of this particular Act; but, to paraphrase the report of the Secretary of Finance and Justice, the Act stated that all funds in the Insular Treasury which were the proceeds of the certificates of indebtedness issued under the Act of Congress, all the profits of the seigniorage, all exchange profits made by the Insular Government between the Philippines and the United States, and all other receipts in the Insular Treasury accruing from the exercise of its functions of furnishing a convenient currency for the Islands, constitute a separate and trust fund. Five special provisions were made for the purpose of maintaining the parity of the Philippine silver peso with the gold peso, and for the keeping of the currency equal in volume only to the demands of trade: The Treasury was authorised—

"1. To exchange on demand at the Insular Treasury for the Philippines, currency offered in sums of not less than 10,000 pesos, or United States money offered in sums of not less than \$5,000; drafts on the gold standard fund deposited in the United States or elsewhere, charging a premium of  $\frac{3}{4}$  of 1 per cent. for demand drafts and  $1\frac{1}{8}$  per cent. for telegraphic transfers; and to direct the depositaries of the funds of the Philippine Government in the United States to sell upon the same terms and in like amount exchange against the gold standard fund in the Philippine Islands. The premium to be charged for drafts and telegraphic transfers may be temporarily increased or decreased by orders of the Secretary of Finance and Justice, should the conditions at any time existing. in his judgment, require such action.

"2. To exchange at par, on the approval of the Secretary of Finance and Justice, United States paper currency of all kinds for Philippines Currency, and the reverse.

"3. On like approval, to exchange for Philippines currency, United States gold coin or gold bars in sums of not less than 10,000 pesos or \$5,000, charging for the same a premium sufficient to cover the expense of transporting United States gold coin from New York to Manila, the amount of such premium to be determined by the Secretary of Finance and Justice.

"4. To withdraw from circulation until paid out in response to demands made upon it, in accordance with the provisions of the Act, Philippines currency exchanged and deposited in the Treasury.

"5. To withdraw from circulation, United States paper currency and gold coin and gold bars received by the Insular Treasury in exchange for Philippines currency, until same shall be called out in response to the presentation of Philippines currency, or until an insufficiency of Philippines currency shall make necessary an increased coinage, in which event, for the purpose of providing such coinage, coin so obtained shall become part of the Gold Standard Fund of the Philippines."<sup>1</sup>

Various amendments and additions to this Act have been made from time to time, but, as they deal more with executive affairs than with matters of principle, we refrain from quoting all but the most important here. The reader will observe from these provisions how carefully the authorities followed the main features of the Gold Exchange Standard.

The first alteration which had to be made was in the rate at which the Government's drafts on the gold standard

<sup>1</sup> Cf. Report of the Secretary of Finance and Justice, quoted in the Report of the Commission on International Exchange, 1904. p. 288 *et seq.*

fund were sold. We have seen that the Philippines Government, in order to maintain the parity of the new peso, had arranged to sell drafts and telegraphic transfers, Manila on New York at  $\frac{3}{4}$  per cent. and  $1\frac{1}{8}$  per cent. respectively. This was a tentative arrangement and one which soon had to be altered, since, in practice, it was found that, owing to the nature of the trade between the Philippine Islands and the United States and other centres, drafts in plenty were sold on New York; but no transfers took place from the United States on Manila. It was, therefore, decided to change the rates—New York on Manila; and, after various attempts at testing the market, the rate was fixed at  $\frac{3}{8}$  per cent. for the drafts and  $\frac{3}{4}$  per cent. for the telegraphic transfers. The rates—Manila on New York—were maintained at their original figure:  $\frac{3}{4}$  per cent. and  $1\frac{1}{8}$  per cent.

We now reach the final stage in the history of the Philippines currency. In the working of the Gold Exchange Standard, things went smoothly enough for some years, yet, as it subsequently turned out, there was a difficulty in the machinery which could hardly have been foreseen: it was caused by the *rise* in bar silver this time. The mischief first became apparent when silver reached 29 $\frac{1}{4}$ d., for then it was realised that the silver parity of the existing Philippine peso had been passed, and the value of the coin in the East was greater than its par or exchange value. Operators were not slow to take advantage of this; and when in November, 1905, silver on the London market reached the price of 30d. per standard ounce, the bullion content of the Philippine peso out-turned at 25 $\frac{1}{4}$ d. per ounce standard; and large quantities commenced to be bought up, were melted, and sent to China in satisfaction of the silver demand there. This was an unlooked-for contingency, and the anxiety of the authorities grew in proportion to the denudation of the Colony's silver money. The evil demanded an immediate remedy; and, to stay the rot, the United States Government passed a

law on the 26th June, 1906, authorising the Insular Government to alter the weight of its silver money on condition that the fineness of the silver peso was not reduced below 700. An Act by the Philippines' Government soon followed; and on 6th December, 1906, it fixed the weight and fineness of its silver currency on the following basis—

1 peso piece,	weighing	20 grammes,	800 fine	
50 centavos piece	"	10	"	
20	"	4	"	} All 750 fine
10	"	2	"	

The weight of pure silver in the Philippines' peso was, therefore, by this step reduced to 16 grammes—

$$\frac{20 \times 800}{1,000} = 16$$

and there was no danger of its metallic value advancing beyond its nominal value (24·666d.), unless the price of silver advanced beyond 44·34d., though, as we shall see presently, difficulties were again experienced at a later period.

It is interesting to note that the nucleus of the Gold Standard Fund was obtained from the two issues of the temporary certificates of indebtedness authorised under the Act of 2nd March, 1902. These, as we have stated, were in denominations of \$25 or multiples thereof; they were payable at periods of three months or more, but not later than one year after issue—interest not exceeding 4 per cent. per annum. \$3,000,000 of these certificates were sold at Washington on 23rd March, 1902, at a premium of 2·513 per cent.—interest 4 per cent. per annum: term, one year. After deducting the premium, the net interest paid was, therefore, 1·487 per cent.

“The money realised in this transaction was deposited to the credit of the Gold Standard Fund, with the Guaranty Trust Co. in New York, which paid at the rate of 3½ per cent. per annum for the use of the money. It, therefore, resulted—inasmuch as the money remained for a considerable period on deposit with the Guaranty

Trust Co.—that the interest received from the money deposited more than paid the interest above stated that the Government must pay upon the certificates, so that the transaction cost the Government less than nothing, and was an actual source of profit.”<sup>1</sup>

On 25th August, 1903, a further \$3,000,000 for the same term and at the same rate of interest were issued, the premium obtained this time being 2·24 per cent.; the proceeds were again deposited with the Guaranty Trust Company.

As will be seen, the most striking result of these two issues was that the Government was actually able to make a profit out of its debts, a fact so curious in the annals of finance that some explanation may be necessary. To be very brief, then, special circumstances gave the certificates special value: first, as an investment, the safety of the certificates was undoubted; secondly, they were exempt from all taxation; and, finally, the Secretary of the United States' Treasury authorised their deposit by National Banks as security for deposits of United States' funds held by the banks. This last circumstance made them peculiarly valuable to the banking fraternity, and the combination of circumstances made the certificates a particularly desirable investment for all financiers. The first issue was made for the purpose of establishing a continuing credit for the purchase of silver bullion for the new coinage, and the proceeds of the second issue were to be held for use in the maintenance of the exchange parity; but, as a matter of fact, the proceeds of these two issues of certificates of indebtedness, together with the seigniorage on the new coinage, constituted the first funds in the Gold Standard Reserve.

We have little to add to complete our examination of the Philippines currency system. Complete machinery had been set up, matters were working smoothly, the

<sup>1</sup> Report of the Commission on International Exchange, 1904, p. 291.

natives had taken kindly to the new coins, and all that remained to be done was to tackle the postponed problem of the Mexican dollars and the Spanish-Filipino coins. Just how this rather awkward business was approached and settled is told by the Chief of the Bureau of Insular Affairs in his report for the year 1904. The Civil Governor on 23rd October, 1903, issued a proclamation to the effect that Mexican silver dollars would be receivable for public dues, at a rate to be fixed from time to time, until 1st January, 1904. On and after that date, the coins would cease to be so receivable; and, as it afterwards turned out, on the date named, the Mexican dollar was demonetised and its further importation prohibited. Steps were also taken to get in and retire the Spanish-Filipino coins at a ratio fixed from time to time; and on 7th January, 1904, drastic legislation was passed, to take effect from 1st October of the same year, discouraging by means of a system of progressive taxes, the further circulation of anything but the new Philippines and United States currency. The effect of the new legislation was soon apparent: Mexican dollars were promptly exported from the country to China and surrounding countries, and the other coins flowed speedily into the Government treasuries, and within a few months the Gold Exchange Standard was an accomplished fact.

The Philippines Currency Act was, says the above-mentioned official in his report, passed by Congress on 3rd April, 1903; the first new Philippine peso was placed in circulation on 23rd July, 1903; and by October, 1904, the Government had managed to eliminate between thirty and forty millions of debased currency, in substitution for which the Islands now had a currency based upon the Gold Standard. All this was accomplished without serious jar or dislocation, and all within the brief space of seventeen months. It was a fine achievement, and is probably unique in the monetary history of the world.



In regard to paper currency, there is not much to record, since the issue was confined to the notes of the Banco Español Filipino (now the Bank of the Philippine Islands), under a charter received from the former Spanish Government. To some extent, the silver certificates to which we have referred, answered the purposes of paper currency. Under the provisions of the Act of March, 1903, the Treasury of the Philippine Islands was authorised to receive deposits of the standard silver coins of 1 peso in sums of not less than 20 pesos, and, in exchange, was allowed to issue silver certificates in denominations of not less than two nor more than ten pesos. The coin so obtained was ordered to be held in the Treasury for the payment of such certificates on demand, and was allowed to be used for no other purpose. These silver certificates were receivable for all public dues in the Philippines. Two, five, and ten pesos certificates were issued. It was found, subsequently, that only certificates of the higher denomination, namely, 10 pesos, were in demand; and, later, certificates for amounts up to 500 pesos were authorised to be issued.

Silver certificates were not really legal tender for the payment of ordinary obligations, yet—as they were receivable in payment for rates, taxes, and the like—it was found that they tended to form a convenient means of exchange in the usual commercial transactions of the Islands; and in so far as they were thus doing money's work, they were, to all intents and purposes, fulfilling the function of paper currency.

The bank mentioned is not the only one doing business in Manila: there are also to be found on the Islands, branches of the Chartered Bank of India, Australia, and China; the Hongkong and Shanghai Banking Corporation; and the International Banking Corporation.<sup>1</sup> All these institutions are likewise established or represented in the principal Eastern centres as well as in London, and

<sup>1</sup> Now the National City Bank of New York.

are, therefore, in a position to carry through exchange transactions in numerous directions for those domiciled or doing business in the Philippines. Formerly, each of them was the accredited depository for Government funds in the Colony. This particular privilege meant a constant addition to the floating balances of the various banks and, as the money so deposited with them by the Government could be used in their ordinary financial operations, this Government patronage was valuable in more ways than one. On 1st July, 1916, the privilege was withdrawn, and the function transferred to the institution which is now more or less of a Government bank—the Philippine National Bank.

This establishment, under Section 9 of Act No. 2612 of the Philippines, is authorised to receive deposits of funds of the Insular Government, the provinces, municipalities, postal savings banks, etc.; and it is now made obligatory for the Insular, provincial, and municipal authorities to make their deposits in the Philippine National Bank. This Bank is also empowered to issue notes in the Philippines. Its notes are known as "circulating notes"; and Section 18 of the Act creating the Bank provides that notes shall never be issued in any amount exceeding 75 per cent. of the securities held by the National Bank under Section 11 of the same Act. The securities in question, apparently consist of promissory notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, and having not more than 120 days to run after they are discounted. The total amount of circulating notes outstanding at any time must not exceed 60 per cent. of the full amount of the capital and surplus. The security against the notes must be held inviolable for the payment and redemption of the circulating notes. At all times the Bank must hold a sum of not less than 33 $\frac{1}{3}$  per cent. of the total amount of the circulating notes outstanding in lawful money of the Philippine Islands, and this sum is available only for the purpose of redeeming the notes.

In addition to the circulating notes above mentioned, the National Bank has authority to issue its circulating notes against gold coin of the United States to the full value thereof, provided, however, that gold coin against which notes have been issued are held by the Bank and used for no other purpose except the redemption of the notes. The Bank has the privilege, if it so desires, of redeeming the circulating notes in any lawful money of the Philippine Islands. The notes are receivable by the Philippines Government in payment of all taxes, dues, or other claims due or owing to the Government.

It will be realized that the Philippines' Government is responsible for the maintenance of exchange—not the Philippine National Bank. The Government, in effect, secures contraction of the currency by selling exchange on New York, and, indirectly, also on London, against payment in Philippines' pesos. Manila is the exchange centre, and the drafts sold range from 5,000 American dollars upwards. Expansion is secured by selling drafts in New York on Manila in amounts of 10,000 pesos and upwards. It is plain that the sales in Manila take pesos out of circulation and thus raise the value of the residue. Similarly, sales of pesos in New York have for effect the releasing of pesos to circulation when the drafts are presented for payment in the Philippines. Telegraphic transfers are also sold as occasion arises. In normal times, as we have seen, the rates were based on a premium of  $\frac{3}{8}$  per cent. for the drafts and  $\frac{1}{4}$  per cent. for the telegraphic transfers, New York on Manila, and  $\frac{1}{4}$  per cent. and  $1\frac{1}{8}$  per cent. respectively for exchange Manila on New York. The Government, however, met with difficulties in the maintenance of exchange after the war. Abnormal trade conditions, and the ever-rising price of bar silver upset their calculations. The bullion value of the Philippines' pesos was worth more than its value as a monetary unit, and the coins disappeared from circulation. Very soon the Government was bound to enforce a prohibition against the export of pesos, but

even this did not altogether stop their being secretly melted and exported from the Philippines. In 1919, it became necessary to raise the premium on telegraphic transfers to 3 per cent. in the endeavour to keep to the terms of the Currency Reserve Fund Act of 6th May, 1918, which provides for the maintenance of the parity of the peso with gold, it being laid down that two Philippines pesos shall be exchanged for one American gold dollar. However, in March, 1921, it was decided to abandon sales of exchange, as a temporary measure, since (March 12th, 1921), the reserve fund in New York showed only \$1,500,000 gold, and there were no visible means of its being replenished. Prior to 12th March, 1921, the Government had been selling certificates of indebtedness to assist in keeping up the reserve, but it was recognized that these sales could not go on indefinitely. Sterling rates of exchange in the Philippines are, it should be noted, based on the Government's rate, and to a large extent are dependent on the free sales of exchange by the Philippines' Treasury.

As a matter of fact, when the break came, the Government was in the unenviable position of being called upon to purchase local currency at a rate considerably higher than the ruling quotations, and when it decided to stop sales on 4th March, 1921, the business was seen to be impossible, without heavy loss to the Treasury. At that particular date the rate on London was 2s. 2½d. per peso, and as the Government had to work by reference to the American cross rate of exchange on London, then \$3.90 to £1, it was losing considerably on every sale of exchange, as the following calculation will show—

? Pence	=	1 peso
If 2 pesos	=	1 U.S. Gold Dollar
If \$3.90	=	240 pence

$$= \frac{240}{2 \times 3.90} = 2s. 6\frac{1}{2}d.$$

The Philippines Government were thus being called upon to give 2s. 6 $\frac{3}{4}$ d. in exchange for 2s. 2 $\frac{3}{4}$ d. Philippines currency—this hastened the decision to cease sales. Sales of exchange on New York were not resumed until 20th April, 1921, and at first as high a premium of 10 per cent. was charged. The premium was gradually reduced as trade conditions became more normal, and there is no doubt, too, that the heavy and continuous fall in the price of silver also helped the Government to resume its pre-war policy.

The difficulties into which the Philippines Government got with its currency and exchange during and after the Great War were not entirely due to the appreciation in the price of silver. They were in a large measure due to mismanagement. The currency reserve was allowed to pass into the hands of the Philippine National Bank; further, a good deal of the funds formerly on deposit in New York had been allowed to be transferred to Manila to this bank. There was a lack of Government control over the management of the reserve, and the bullion became merged with the Gold Exchange Fund. Subsequent investigation showed, too, that besides being a currency reserve it to all intents and purposes became a banking reserve, and the fund was not maintained up to the level of the obligations outstanding against it. The bank seems to have regarded the reserve, not as a fund hypothecated for a definite and inalienable backing to the currency, but as part of its loanable assets. In fact, General Leonard Wood and Mr. Cameron Forbes, who subsequently investigated the position on behalf of the United States Government, showed that although one of the functions of the National Bank was to manage exchange matters on behalf of the Government, the bank had advanced money on loans in the Philippines in such a way, that, when depression came in 1921, it could not be recovered. One paragraph of the report is illuminating; it shows the sorry pass to which a well-managed currency

system may be brought through lack of experience and proper Treasury control ; it reads—

“ The currency resources have been depleted ; the silver on deposit to redeem the currency has been pledged and used for other purposes. The fund for the maintenance of the parity of gold and silver is involved in this loss, with the result that instead of a metallic and cash basis for the currency, its principal support is the pledge of the Philippine Government and the confidence that the United States will not permit these things to happen again. The currency is now practically a fiat currency.”

We need not dwell on the steps taken to put matters on a surer foundation, but just briefly we may say that the trouble was tackled energetically and skilfully. General Wood, after making his report to the United States Government, went back to the Philippine Islands as Governor-General with power to reconstruct the system. Under his aegis, in 1922 the Treasury Certificates Fund was definitely separated from the Gold Standard Fund, and an issue of bonds was made in New York to replenish and to place them on a reliable basis. Matters now seem to be progressing satisfactorily, and as General Wood in his message to the Legislature in October, 1922, insisted, “ the unfortunate experience of recent years had taught the lesson that these funds should be both adequate and liquid. It is much to be hoped that the lesson has been well learned as well as taught.”<sup>1</sup>

We may now turn to the exchange banking operations, which are, of course, carried out mainly with America ; but the activities of the banks extend in many directions, and are directed chiefly to financing the import and export trade of the country with many other foreign centres.

Exchange quotations differ very little from those seen in the other countries we have mentioned: the banks and

<sup>1</sup> Cf. *International Exchange*, E. L. Stewart Patterson and J. W. Jenks ; New York.

a number of brokers quote for practically any business coming their way, but sometimes it is found that competition is eliminated by the banks interested entering into agreements regarding the basis of their exchange business.

The following is a specimen table<sup>o</sup> of the rates quoted in Manila—

LONDON.	4 m/sight Bank . . .	2s. 1 $\frac{5}{8}$ d.
	On Demand . . .	2s. 1 $\frac{1}{8}$ d.
	Tel. Transfer . . .	2s. 1d.
	4 m/s L/Credit . . .	2s. 1 $\frac{7}{8}$ d.
FRANCE.	Tel. Transfer . . .	2-85
	On Demand . . .	2-85
SPAIN.	Madrid On Demand . . .	206 $\frac{1}{2}$
	Barcelona On Demand . . .	206 $\frac{1}{2}$
	Provinces . . .	207
HONG-KONG.	On Demand . . .	108 $\frac{3}{4}$
SINGAPORE.	On Demand . . .	113
NEW YORK & SAN FRANCISCO.		
	Tel. Transfer . . .	1 $\frac{1}{2}$ % premium
	On Demand . . .	1% premium
JAPAN.	On Demand . . .	3 $\frac{1}{2}$ % premium
SHANGHAI.	On Demand . . .	61
AMOY.	On Demand . . .	109 $\frac{1}{2}$
SAIGON.	On Demand . . .	109 $\frac{1}{2}$
INDIA.	On Demand . . .	153

In face of what has been written concerning other centres, this exchange list requires but little explanation. "London: 4 months' sight bank, 2s. 1 $\frac{5}{8}$ d." is the bank's selling rate for a bill on London payable four months and three days after the bill has been sighted or presented to the bank in London; so for each Philippines' peso handed over in Manila, the bank will give a bill for 2s. 1 $\frac{5}{8}$ d. The "On demand" quotation indicates the number of shillings and pence per peso for a bill payable on presentation in London. "Telegraphic Transfer" shows that in exchange for 1 peso the bank will cable its London branch to pay 2s. 1d. in London to the remitter's agent. The reader will observe that the more distant the time of payment, the more shillings and pence will be given per peso. The "4 months' sight Letter of Credit" rate represents the number of shillings and pence per peso which must be surrendered to the bank by the seller of a

bill drawn under a credit; or, to put it another way, the bank in Manila will buy a sterling bill drawn on London and will give the seller 1 peso for every 2s. 1 $\frac{7}{8}$ d. represented by the bill. With France, the "On demand" and "Telegraphic Transfer" rates on the day in question were the same, namely Fcs. 2.85 per peso. When we get to Spain, we find that "Madrid" and "Barcelona" are quoted for bills drawn on that city payable "On demand, 206 $\frac{1}{2}$ ." Now, there is a curiosity about this rate on Spain. For some inscrutable reason or other, rates on "Spain" are quoted in duros (5 pesetas go to 1 duro), and this particular rate, therefore, means that the bank will sell 500 pesetas for 206 $\frac{1}{2}$  pesos. It is difficult to say why the pesetas rate on Spain is quoted in duros: actually they are quoted at so much premium in relation to the local currency; so the rate above mentioned ("206 $\frac{1}{2}$ ") indicates that duros enjoyed a premium of 106 $\frac{1}{2}$  over pesos, hence the equivalent of 206 $\frac{1}{2}$  pesos = 100 duros = 500 pesetas. The "Provincial" rate is that at which the bank will sell bills on places other than the two centres named, and is "207" pesos per 500 pesetas. It remains to be added that there is no such coin in existence as the duro—this is another one of those idiosyncrasies which we find in foreign exchange. "Hong-Kong on demand" simply means that "108 $\frac{3}{4}$ " Philippines' pesos are worth 100 Hong-Kong dollars local currency: that is, you may buy a bill drawn on Hong-Kong for 100 dollars payable there immediately on presentation, for which you will have to surrender of Philippines' currency 108 $\frac{3}{4}$  pesos. For "Singapore on demand" we give "113" pesos for 100 dollars payable in Singapore on demand. When we come to the rates on America, the quotation is, to all intents and purposes, indicative of the premium mentioned on page 311, as fixed by the Government for drafts on its gold reserve in the United States. In this case, the banks are practically obliged to follow the Government; and it is understood that the Government will normally



undertake to provide cover for the banks' operations at  $\frac{3}{4}$  per cent. for drafts on demand and  $1\frac{1}{8}$  per cent. for telegraphic transfers. The rate shows that for bills "on demand" the buyer will have to pay a premium of "1 per cent." and for "Telegraphic Transfers  $1\frac{1}{8}$  per cent." premium. In other words, the percentage represents a premium on the fixed ratio of 2 pesos to 1 United States gold dollar. The telegraphic transfer rate is, therefore, really equivalent to 203 pesos for 100 United States gold dollars, and the demand quotation to 202 pesos for 100 dollars.

"Japan  $3\frac{1}{2}$  per cent. premium" shows that the yen, as compared with the peso, is at a premium of  $3\frac{1}{2}$  per cent., that is to say, for a bill on demand drawn on Japan, the buyer will pay  $103\frac{1}{2}$  pesos for each 100 yen included in the amount of the bill. Amoy equals 100 dollars local currency in Amoy for  $109\frac{1}{4}$  pesos paid in Manila. The Saigon rate indicates that for a demand bill on that French Indo-China port,  $109\frac{1}{2}$  pesos will be required to purchase 100 piastres. In the case of the Shanghai rate, 100 pesos will purchase only 61 taels payable on demand in Shanghai; while Indian rupees being worth less than the peso, more can be purchased for a bill on demand, hence we get for our 100 pesos Philippines' currency, 153 rupees Indian currency.

The law as regards stamp duties in the Philippines is fairly simple.

#### STAMP DUTIES

Bank Cheques	}	2 centavos
Certificate of Deposit not drawing Interest		
Order for payment of any sum of money by any bank, person, etc., on demand		
Bills of Exchange between points within the Philippine Islands	}	2 centavos on each 200 Pesos
Certificates of Deposit, drawing Interest		
Order for payment of money otherwise than at sight or demand		
Promissory Notes and renewals of such drafts	}	

## STAMP DUTIES—(contd.)

Foreign Bills of Exchange	}	4 centavos on each 200 Pesos
Letters of Credit		
Telegraphic Transfers		
Draft on Demand		
Each receipt or other memorandum for money paid	}	4 centavos when amount exceeds 30 Pesos
Each copy of each set of Bill of Lading or receipt, except Charter Party, goods exported from a port in Philippine Islands to any foreign port	}	10 centavos
Each copy of every Bill of Lading or receipt, except Charter Party, goods shipped from one port to another in Philippine Islands	}	2 centavos

The trade of the Philippines is perhaps of more interest to the merchants of the United States than to British traders. It is not surprising, of course, to find that the lion's share of the import and export trade of the Colony is taken by America: their participation in both the imports and exports for the year ending 30th June, 1915, was approximately 50 per cent. During the same year, both the United Kingdom and Japan were responsible for some 7 per cent. of the imports; but of the exports, the United Kingdom took over 15 per cent. against Japan's 7 per cent. Australia's participation in the imports to the Philippines for 1915 was a little over 4 per cent., and of exports she took less than 1 per cent. For the same period, the imports from the French East Indies amounted to 11·6 per cent., notwithstanding the fact that the amount of produce she received from the Philippines was negligible (\$11,071). China, Hong-Kong, and British India each had a fair trade with the Colony; but the imports and exports did not run into very large figures in 1915, which may be ascribed partly to causes arising out of the war, such as lack of tonnage, etc. France and Spain are also well represented in the trade figures.

The products of the Islands are mainly agricultural: rice, hemp, copra, sugar, and tobacco; and with the exception of rice, these form the principal exports. The imports consist chiefly of cotton goods, rice, dairy produce, and iron and steel products. The local demand for cotton goods is met mainly by the United States, which supply about 59 per cent. of the total quantity imported: the trade of the Americans in this commodity has been fostered by the free entry provisions of the Philippines' Tariff Law of 1909. 99.9 per cent. of the total imports for the past five years have been admitted duty free. The principal imports from the United States during 1918 were: Manufactures of cotton, \$25,305,000; iron and steel manufactures, \$9,304,000; leather and tanned skins, \$1,892,000; mineral oils, \$1,243,000.

The tables below show the imports and exports of importance for the four years (1912-15), and for 1918.

For the fiscal year 1921-22 the total imports were valued at U.S. \$166,030,738 and total exports at U.S. \$188,955,206. The imports from the United States of America were valued at U.S. \$50,113,574 and the exports at U.S. \$59,168,170. From the United Kingdom the imports were U.S. \$3,028,100 and the exports \$5,179,400. Japan and China have a large participation in the Philippines' trade, while Australia and British India are also making good headway.

## IMPORTS

	1912.	1913.	1914.	1915.	1918.
	\$	\$	\$	\$	\$
Cotton Goods	9,246,595	11,483,638	12,107,902	9,669,247	25,305,000
Rice	10,569,949	7,940,857	2,800,884	5,448,301	6,167,000
Iron and Steel	6,031,603	6,608,914	10,104,988	3,993,984	9,304,000
Meat and Dairy					
Produce	3,541,274	3,307,437	3,247,924	2,614,188	2,668,000
Wheat Flour	1,761,398	2,232,438	1,631,912	1,758,404	1,242,000
Mineral Oils	1,207,180	1,235,272	1,418,799	1,278,273	1,875,000
Coal	—	1,235,272	1,682,498	1,655,314	1,891,000
Leather Goods	—	1,190,123	1,397,070	1,407,943	—

## EXPORTS

	1912.	1913.	1914.	1915.	1918.
	\$	\$	\$	\$	\$
Hemp . .	16,283,510	23,044,744	22,375,106	19,469,642	54,494,000
Copra . .	16,514,749	11,647,898	8,297,429	12,394,712	9,527,000
Sugar . .	10,400,575	9,491,540	9,457,982	9,712,757	13,305,00
Cigars . .	2,660,061	3,300,748	2,523,540	2,102,317	5,709,0000
Tobacco .	1,902,644	2,039,726	2,099,089	1,589,678	4,988,000

### Weights and Measures in Use in the Philippine Islands.

The principal weights and measures in use throughout the Islands are these—

1 Pulgada (12 linea)	. =	.927 inch		
1 Pie . . . . .	. =	11.125 inches		
1 Vara . . . . .	. =	33.375	„	
1 Gantah . . . . .	. =	.8796	gallons	
1 Caban . . . . .	. =	21.991	„	
1 Libra (16 onzo)	. =	1.0144	lbs. avoirdupois	
1 Arroba . . . . .	. =	25.360	„	„
1 Catty (16 Taels)	. =	1.394	„	„
1 Picul (100 Catties)	. =	139.482	„	„

## CHAPTER XX

### ON SILVER

METHODS OF PRODUCTION AND CONSUMPTION—HOW LONDON FIXES THE PRICE FOR THE WHOLE WORLD—THE DEPRECIATION OF SILVER AND ITS EFFECT ON THE CURRENCY AND ECONOMIC CONDITIONS OF VARIOUS COUNTRIES—DISADVANTAGES AS A CURRENCY STANDARD—VARIATIONS IN THE PRICE FROM 1833-1923—THE GREAT APPRECIATION IN VALUE AND THE DEPRECIATION SINCE THE WAR—CAUSES AND EFFECT

WE have now examined the currency and exchange of all those countries in the Far East which maintain the exchange value of their monetary unit on a parity with gold. Practically all of them are adherents to the gold exchange standard; and in view of this, one country, French Indo-China, should not, strictly speaking, have been included with these other countries. Still, as the French Government appears to make an effort to maintain exchange at certain fixed rates, it was considered the best course to place the chapter in its present position as affording a useful comparison of the methods employed in maintaining exchange levels in the East.

Having arrived at this stage, we come to what is perhaps the most difficult part of the subject, that is, the currency of Hong-Kong and of China Proper. Neither of them is on the gold standard; and though currency matters in the British Colony are certainly better managed and more under control than are those of the Chinese Republic, at the same time they are both more or less in an unsatisfactory condition: in the one case, that of Hong-Kong, the trouble is entirely due to the disadvantages arising out of a silver standard; in the other case there is no *actual standard of currency*—silver is nominally the

recognised medium of exchange—and matters are constantly aggravated by internal disorders. Before one can properly realise the defects inherent in the situation, it is advisable, if not essential, to know something about this great silver problem, which is so frequently agitating the minds and, incidentally, the circulating capital, of all who have connections with the East. In order, therefore, to give the reader a little insight into “things silver,” the writer decided to take the somewhat unusual course of interpolating at this stage a chapter entirely devoted to the subject of Silver.

Now, to comprehend clearly the silver question, it will be necessary to know something about the production and consumption of the metal. The world's production of silver for the year 1914 amounted to 211,103,377 oz.,<sup>1</sup> the greater part of which (£12,800,000) found its way to the London market. In the year preceding the war, London imported silver of a declared value of £15,700,000 and, in 1912, £18,320,000. The metal, in normal times, is received in London in regular weekly shipments: it is, in fact, despatched here by the foreign smelters and refiners as fast as it is produced; and as there is always a market in London for the world's surplus silver production, the brokers usually have instructions to sell silver on or before arrival for the best price obtainable. It follows, then, that as London has the handling of the bulk of the silver produced, it is London which fixes the price for the whole world. “Fixing,” so called, is under the control of four firms of London brokers, who meet at 1.45 p.m. daily (11.30 a.m. on Saturday) and then, after comparing the amount of silver each has to buy, or sell, as the case may be, fix a price at which the operations are to be put through, and this price goes out to the public as the quotation for the day. If there are more sellers than buyers, the quotation is, of course, put down; if buyers predominate, silver goes up. Subsequently two prices are given out

<sup>1</sup> The estimated production in 1923 was 212,000,000 ounces.

to the market, "ready" and "forward." The ready, or, as some brokers call it, the "spot" quotation, is for silver cash against delivery within one week; the "forward" quotation represents silver deliverable in two months from date of purchase. Banks and others purchasing silver are charged a brokerage of  $\frac{1}{8}$  per cent.; no brokerage is charged for selling.

During the war, however, there was only one price for silver—the cash price—to which dealings were confined.

Sometimes the Eastern exchange banks buy silver merely for covering operations against their exchange transactions, and often dispose of "forward" silver before the date for delivery is due. There is also another operation carried on called a "budlee" or budla. To budlee silver is to buy "ready" and sell "forward."

Immediately after fixing, the day's quotation is cabled out to practically every financial centre in the world; and, especially in the East, dealings in silver are carried out on the basis of the London price. Just how exchange is effected by silver movements, we shall presently see.

The consumption of silver may be classified approximately in order of importance under the following headings—

- (a) for coinage;
- (b) for the industrial arts;
- (c) for the Bazaar trade of British India;
- (d) for China;
- (e) for a few minor countries and States.

By far the larger proportion is used for coinage purposes, but the demand from India and China is constant, and it is to these countries the silver brokers and speculators look for a large number of their operations. The silver taken by sundry small countries is relatively unimportant, but the amount taken for industrial uses is always a factor with which the market must reckon, since it is the industrial consumption which ultimately absorbs all surplus

silver. Curiously enough, however, this consumption has little effect on prices, probably because buyers of silver for the arts and manufactures know that they are generally able to obtain the balance remaining after other demands have been satisfied. It is the demand from India, China, and the East, which is the ruling influence on the day-to-day price fixed by London brokers.

To sum up, we may say that the metal is required by the silver-using countries of the East as the basis of their currency: it is needed for the subsidiary silver coins of gold standard countries like England, and is in demand all over the civilised world for industrial purposes, thus establishing beyond all doubt a natural demand for and consumption of silver. In these circumstances, it might not unnaturally be supposed that the price of silver would always remain steady and, indeed, of late years, the price has tended to fluctuate within certain narrow limits, but this has not always been the case; and even now we are justified in regarding silver as a metal unduly subject to sentimental influences of all kinds. In 1872 the average price of the metal was  $60\frac{5}{16}$ d.; in 1911, the average price was  $24\frac{1}{3}\frac{9}{2}$ d.; in 1915 the average price was  $23\frac{1}{3}\frac{1}{2}$ d.; and in 1916, from causes arising purely out of the Great War, and to which we shall presently refer, the average price reached  $31\frac{5}{16}$ d. per standard oz.—a level which had not been seen since the year 1893.

A higher level was touched in 1917— $40\frac{7}{8}$ d. In 1918 the average price was  $47\frac{9}{16}$ d., and in 1919 the average was 57·059d. per oz., but, as we shall see, the zenith had not been reached.

A combination of circumstances brought about the depreciation noticeable before the war, and we have space to name only a few of the principal causes—interesting as they are. One of the great contributory causes to the fall was the repeal by the United States of America of the Sherman Act. This Act was an unfortunate experiment, under which she made compulsory the purchase by her Treasury



authorities of 4,500,000 oz. of silver per month : it was repealed in 1893. Immediately following the repeal of this Act the Indian Mints were closed to the free coinage of silver. Then there was the fear that, because the Governments of the Philippine Islands, the Straits Settlements, French Indo-China, Siam, and Mexico had in view the possible adoption of a gold exchange standard, the demand for silver would be materially decreased. Most of these fears were exaggerated; and even when the countries in question did go over to the gold exchange standard, it was found they constantly needed silver for subsidiary coinage. There is no doubt, however, that the large amount of silver taken by America under the Sherman Act was the means of calling into being new sources of supply;<sup>1</sup> and a heavy percentage of the silver was at that time obtained from the mines whose chief product was silver. With the repeal of the Sherman Act, and in conjunction with the other disquieting features, however, silver mining received a severe set back. The matter received serious consideration, especially in the United States; and in the opinion of the Commission on International Exchange, there remained two chief reasons for the heavy depreciation of the metal—

(1) That silver, being largely produced as a by-product, it had no fixed cost of production.

(2) That the methods of buying and selling silver had a depressing tendency.

The last point requires some little consideration. We have seen that the amount of silver marketed in London is in the hands of some four brokers, and—here is the strange point—the first sellers of silver to the brokers have little, if any, interest in the price of the metal. The principal first sellers are the smelters, whose custom it is to sell their silver at the London market price and to buy

<sup>1</sup> The notorious "Bland" Bill (passed in 1878) had for effect the purchasing of 2 to 4 millions worth of silver per month : it was precursory to the Sherman Act.

at once a similar amount of ore at a corresponding price. The smelters obtain from the silver miners, or, rather, the mine-owners, a certain fixed sum in gold for each ton of ore to meet the charges incidental to smelting and selling. It is obvious, therefore, that the price of silver in reality determines the price of the ore, and, consequently, the profits of the first sellers are not materially decreased when the price of silver falls nor increased much if it rises. So much for the sellers; but when we get to the buyers of silver, we find factors contributing to a similar result. Chief among the buyers are the Governments, and Governments—like the actual sellers of silver (the smelters)—are, in a way, not directly interested in the price. It is to their country's interest, of course, to buy the metal as cheaply as possible; but where you get countries coining silver at certain ratios for their subsidiary silver coins, a considerable profit reverts to the country from the seigniorage, and it is, generally speaking, a matter of small moment whether the price be a fraction higher or lower.

It was for these and similar reasons that the American Commission on International Exchange placed on record in their report of 1903 the following point—

“It seems probable that if a reasonably steady demand on the part of the Governments for the silver which they actually need from year to year could be assured, the supply could be so handled that the price would be kept steady to a much greater degree than has been the case in recent years. It is not to be expected that the price would be absolutely stable, but there is reason to believe that it would become so nearly stable as to be of material assistance in establishing a monetary system on the gold exchange basis in the present silver-using countries.”

The Mexican Commission also suggested that two or three great institutions like the Bank of England, Banque de France, and the Reichsbank might undertake to act as agents for the different Governments in making purchases.

It was said that, acting thus, the sellers could put into the hands of these banks a sufficient amount of silver to be regularly distributed among the various nations, in order to satisfy their needs and, at the same time, prevent any great irregularity in the demands.

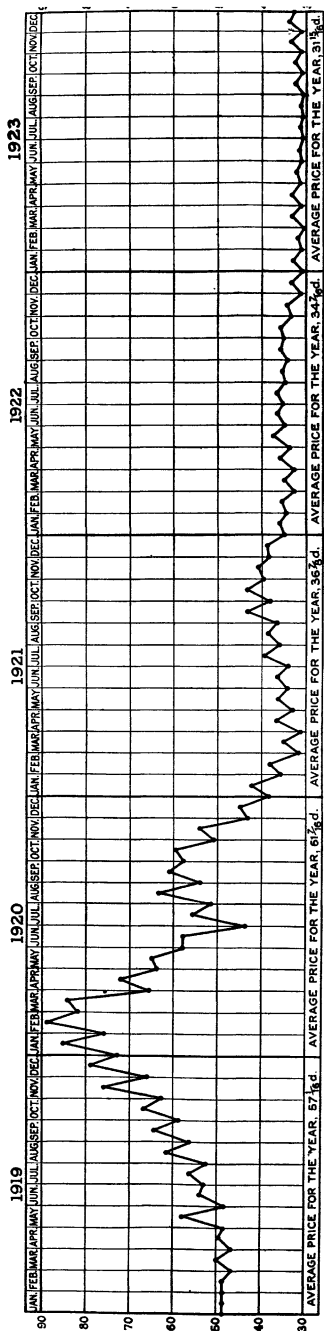
These recommendations were placed on record and, as is usual with such Commissions, little or nothing was done—it required a great war to revolutionise dealings and to remove the hide-bound prejudices of Governments in regard to silver purchases. Let us see what happened.

After the war had been in progress a few months there sprang up a keen demand for silver from an unlooked-for quarter: in Europe there was a great absorption of currency, larger and larger supplies of subsidiary coins were required, and before very long the demand from European nations for silver for coinage reached a scale the like of which had not been witnessed for very many years.

From the purchasers' standpoint this demand came at an awkward moment: supplies from the regular quarters had been falling off for some time; then the Mexican imbroglio practically dried up another source of supply, and holders of the metal were inclined to hold off for better prices. In addition to this, what might be called the "visible" stocks in India and China were considerably lower than had been the case for some years, so that the market found itself in the position of having to meet very heavy calls when its potential supplies were apparently diminishing, and naturally the price began rapidly to move upward.

A good deal of the extra absorption was due to increased coinage of silver by France, Russia, and Italy; but the British Government also needed large amounts of the metal for coinage: the Royal Mint did, in fact, coin £8,738,465 worth of silver in 1916 as compared with an average coinage during the ten preceding years of approximately £1,000,000. European nations were practically





obliged to economise in the use of gold, and at the same time they found it incumbent upon them to meet an increased demand for currency by putting into circulation an additional amount of subsidiary silver coins. The public in most of the belligerent countries took kindly to the enormous amounts of paper money issued; but to satisfy that section of the community who prefer silver to paper, and among this class we must remember the large numbers of Indian and other troops who were scattered about in Egypt and Mesopotamia, silver continued to be coined. Then, too, there was an increased demand from India which had to be satisfied. The result of this unprecedented demand for silver was that the various Governments came on the market at the same time and, their orders being given more or less indiscriminately, it soon became evident that they were in direct competition with each other—a condition of affairs which exactly suited those who were speculating for a rise; and, as was to be expected, the price immediately rose, until in May, 1916, it reached  $37\frac{1}{8}$ d. The chart which we insert tells its own tale; and if anything is needed to supplement this, the reader will find interesting evidence in the table between pages 330 and 331 showing the monthly fluctuations, in London, in the price of bar silver per ounce standard from January, 1833, to December, 1923.

It was perfectly in keeping with the law of supply and demand that, with buyers in open competition for the limited stocks of the sellers, prices should rise, though there were not wanting those who averred that values were being forced to higher levels than were justifiable. However, things went on in much the same way for some time: the Governments began to wonder what was going ultimately to happen. At last, however, the squeezing became too apparent, and the allied Governments took the bull by the horns and evolved a joint method of purchasing supplies, which, while tending to eliminate competition, at the same time restricted speculation for a rise. Their

action had a reassuring effect on the markets from which the "bull" element was to a large extent purged, and the price soon fell to a level more in keeping with the statistical position of the metal. By statistical position, we mean the actual, visible, and potential stocks of silver within reach of the market. •

Whether the pooling of purchases by Governments will recur in post-war days remains to be seen; but, having once experienced the benefits due to concerted action, it is at least possible that some future attempt may be made to break the monopoly hitherto maintained by a group of London silver brokers.

The effects of this increased demand for silver were far-reaching. The continued depreciation in the metal before the war had caused the production of silver in some quarters to become unprofitable. Most of the "straight" silver mines (mines which produced silver only) in the United States had closed down, and silver mining in America was mainly carried on as a by-product of copper and lead. The demand arising out of the war gave these latter a much-needed fillip, and also tended to restore to their old sphere of activity the straight silver mines.

As the war progressed the demand for silver became intense. On 31st December, 1916, the price of the metal in London closed at  $36\frac{1}{2}$ d. per ounce, and it stood at that price at the beginning of January, 1917, but not for long. Before the month was out, the quotation for the metal was  $37\frac{7}{8}$ d.—a price higher than it had been at any time in 1916. Then silver gradually fell in value until about the middle of February, when, owing to large purchases by China in San Francisco, the quotation rapidly advanced to  $38\frac{7}{8}$ d. per ounce. That point reached, it seemed as if the demand had spent itself, and the price slowly receded until, on the 27th March, the quotation was back to the level of November, 1916— $35\frac{1}{2}$ d. This, however, proved to be the lowest quotation for the year, and following the declaration of war

on Germany by the United States of America, on 6th April, 1917, the value began to appreciate steadily. The news leaked out that large purchases of the metal were being made by the United States Government for subsidiary coinage. China continued buying silver, and there were also operations on the market by the Indian Government. The effect on the London market was a varying one, but the tendency generally upwards, the 38d. mark being reached in May and 39d. in June. Towards the middle of July, 1917, a price of 41d. was noted, and almost simultaneously it became known that the Indian Government had prohibited the import of silver into China on private account, and the price of silver fell to 40½d. per ounce, only to rise again within a day or so to 41½d. as the result of purchases by Indian operators to cover previous sales. This being accomplished, a short period of dullness set in, and the quotation moved downward to 39½d.

At the beginning of August, another kaleidoscopic change came over the market; China started buying heavily, and the price went up by leaps and bounds. As we have seen in our chapters on "India," it was just about this time that the Indian Government were compelled to take action. It was plain to everyone that the value of the silver contained in the rupee was higher than its exchange value (the melting value of the rupee at that time, neglecting charges, was 43·06d. per ounce) and, apart from hoarding, there was no doubt considerable leakage in the currency owing to illegal melting by natives, added to which it was obvious that the cost of procuring silver for further coinage was becoming seriously enhanced. To meet this increased cost, and in order to prevent the export or illegal melting of the coins, the Indian Government not only raised the exchange value of the coin to 1s. 5d. per rupee, but also prohibited the export of silver coin and bullion.

Similar prohibitory measures were also taken by the United States and other governments. Nothing deterred,



however, the Eastern Banks continued to make huge purchases of silver in San Francisco for shipment to China, consequently from the beginning of August until 21st September the price of the metal advanced more rapidly than perhaps has ever been the case before. 46d. per ounce was the price at the end of August, and higher and higher it soared until a limit of 55d. per ounce was reached on 21st September, the highest point that had been touched since the year 1878.

The remarkable feature about this sharp appreciation in silver was that it was continuous, the price having moved from 39½d. on 27th July to 55d. on 21st September, a rise of 15½d. in less than two months, which is all the more notable in view of the fact that the range for the whole year was 19½d. 55d. per ounce for silver remained operative for four consecutive days. Perhaps in the circumstances a reaction was inevitable, and from 25th September onwards the quotation was unsteady, although the fall to 49d. by the end of the month was undoubtedly hastened by a Proclamation in the *London Gazette* prohibiting the export of silver, except under licence, to Holland and the Scandinavian countries.

The market continued to be an interesting one—for the Eastern Banks and the Allied Governments an anxious one, too,—but after reaching a limit of 41½d. on 24th October, another spurt set in, and the quotation jumped, somewhat unexpectedly, to 46d. by 30th October. This comparatively high level, however, was short-lived, and for weeks the quotation steadily dropped until 42½d. was touched on 26th November. The price remained in the neighbourhood of 43d. until nearly the end of the year, when there was a slight advance to 43½d. per ounce, at which price the metal stood at the close of 1917.

The year 1917 was probably one of the most momentous in the annals of silver and, seeing that practically every civilised country in the world was in dire need of the

metal, there is little wonder that price movements were wide.

The reader may very well envisage the outlook for 1918. The requirements by Great Britain for home coinage alone were enormous, to say nothing of the demand for silver to be used in connection with the payment of troops in Mesopotamia, Egypt, East and West Africa. The allied Governments, too, were minting silver coins on a large scale, and the United States of America soon found that enormous quantities of the metal were likely to be used in that country alone in connection with the war. Then we had China and India, each of which have voracious appetities for the white metal.

The position excited wide comment in the Press. In December it was announced that the United States Treasury Department had definitely stated that the Government there would take over the country's silver output and would fix the price, but it was soon apparent that there would be a good deal of procrastination before such a step could or would be taken. Shortly afterwards, Dame Rumour reported that the United States Government had made contracts with the American silver smelters on behalf of Great Britain and herself to purchase 100,000,000 ounces of silver, 60,000,000 ounces of which were said to be destined for India, and part of the remainder would go to France in reimbursement of silver paid to American troops. Sufficient credence was given to this information to start the price of silver moving again, and on the 4th January, 1918, the quotation was marked 44½d. The highest price reached during the month was 45½d., but by the 31st January it had fallen to 43½d. Matters drifted along in a more or less uncertain and aimless fashion throughout February and on into March. At the end of February the price had dropped to 42½d., only to rise again by 14th March to 43d. Then, on 21st of March, came the announcement from Washington that a Bill would be introduced in Congress

authorising the Government to melt and sell 200,000,000 silver dollars out of 460,000,000 then held against silver certificates. Another rumour became current that the producers of silver in America had contracted to sell the entire output from the mines for the next year or two at a price corresponding to \$1 per ounce, the implication being that silver so purchased would go to replace the dollars melted and exported. Doubtless the United States Government did have in mind to procure definite control there and then over the output; but, unfortunately, these arrangements were upset by the failure to act quickly, or by the premature publication in the Press of the Government's ideas, since immediately the details became known, the producers started rushing supplies on the market in order to obtain the high prices ruling. The United States Government, consequently, fell back upon the original proposal to utilise some of the silver which they had accumulated in the Treasury as the outcome of the provisions of the notorious Bland and Sherman Acts, to which we have previously referred.<sup>1</sup> Silver commenced its upward journey again: 44½d. was quoted on 21st March, and a day or two later 46d. per ounce was asked. On the 28th March the quotation shed a fraction, and silver was on offer at 45½d.; but not for long, for on 11th April 46½d. per ounce was obtainable. A week later the price went up to 47½d., and then came what is now known as the Pittman Bill in America. This was officially described as "An Act to conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage and for commercial use; to assist foreign governments at war with the enemies of the United States; and for the above purposes to stabilise the price and encourage the production of silver."

The Bill was introduced into the Senate on 10th April, was approved on 23rd April, and passed and became law

<sup>1</sup> Cf. pp. 331-332.

in the U.S.A. on 25th April, 1918. On this date (25th April) the price of silver had reached 49½d. and, from subsequent events, there is no doubt that the immediate effect of the Act was to stabilise the price of the metal. On 30th May the price was 48¾d., on 2nd July it went up to 48½d., and remained at that figure until 21st August, when a further move to 49½d. was made.

The Pittman Act was an important piece of legislation, and gave the United States Government power to melt or break up and to sell as bullion 350,000,000 standard dollars (representing approximately 271,000,000 fine ounces of silver) held in the United States Treasury. The sales of this bullion were to be made at not less than \$1 per ounce, 1,000 fine. Some difference of opinion at first existed as to the precise meaning to be placed on the terms of the Bill. The general idea was that the Bill fixed the price of silver at \$1 an ounce, but others questioned whether the dollar an ounce was not a minimum price with no limits on a maximum price. The contention of these people was that the price of \$1 an ounce was not a price fixed to all consumers, but only a standard price at which the American Government stood ready to purchase silver at any time it was offered. It was also pointed out that the effect of the Bill was not to commandeer the output of silver. What the Pittman Bill did was to give the United States Government the power to come into gradual possession of 350,000,000 silver dollars, which could be melted and exported as fast as the silver certificates, against which they were originally deposited, could be drawn in: there was no actual stipulation as to the time of re-coinage. Again, what the Bill apparently did presage was a steady market for the producers of silver at \$1 an ounce, without removing the possibilities of higher prices in the open market.

Considerable business on the dollar an ounce basis continued to be transacted in the United States by dealers outside the Government circle, then the Government

stepped in and fixed the price at 101½ cents.<sup>1</sup> This was on 16th August. On 4th August, to go back a little way, the British Government by an Order in Council, published in the *London Gazette* of that date, had taken power to fix a maximum price for silver above which neither purchases nor sales could be made. This was merely precursory to further action. By another Order in Council published in the *London Gazette* of 13th August, 1918, the Government fixed the maximum price for silver bullion in the United Kingdom at 48½d. per standard ounce; and following on the step taken by the United States Government on the 16th August, another Order in Council was made and published in the *London Gazette* of 20th August, 1918, raising the maximum price of silver for the United Kingdom to 49½d. per ounce. By this step the British Government came into line with the United States Government, and by joint action stopped the hole-and-corner dealing which they had previously been unable to prevent in the open market in America, and the market thus found itself fenced round with a control from which it was almost impossible to break away. The United States' silver was entirely under Government control, and no licences to export were being given; while the Canadian Government, for its part, had come into line and also prohibited the export of silver except under licence. The coinage of silver meantime had been proceeding apace. In 1917 Great Britain coined less than in 1916, £4,088,778, but in 1918 the output from the Royal Mint was enormous. To meet the demand for subsidiary coinage silver to the value of £9,252,549 was minted and put into circulation, though to judge by the wholesale watering of the currency by the issue of paper notes, this amount of silver coins did not suffice for the needs of the people.

For the remainder of 1918, with the silver market under the joint control of the British and American Governments, the market was, to outsiders, relatively uninteresting.

<sup>1</sup> i.e. \$1.1½c. per oz. fine.

The Governments were in the position of being able to take the lion's share while the rest of the buyers had to be content, like Lazarus of old, with the crumbs of silver that fell from the Governments' table.

The price per standard ounce of silver remained at 49½d. till November, 1918, and with slight adjustments it varied between 48¾d. and 48⅞d. to the end of the year. The average price for January, 1919, was 48·437d., and under the restrictions imposed against export from both countries, it remained at the "fixed" rate of 48⅞ per oz. until 11th February, when following a reduction in the rates of freight and marine insurance from America the quotation was reduced to 47¾d. Owing to the same causes there was a further fall in price to 47¾d. on 20th February. This proved to be the lowest price for the year 1919, and although the quotation was actually under Government control until 8th May, the real basis for the price was the American maximum of 101½ cents per oz. of fine silver, plus the cost of bringing the metal to England. The variations in the price up to 8th May were, however, due to two things. Up to 25th March the exchange between New York and London, was, as is well known, also under Government control at a fixed rate of \$4.768 to the £1. Then on the date in question exchange was "unpegged," with the result that two factors instead of one henceforth entered into the calculation, namely, the fluctuation in exchange between New York and London and the variations in the cost of freight and insurance on silver, the latter being altered from time to time as shipping facilities increased and the danger from floating mines decreased. On 25th March the price of silver was therefore fixed at the equivalent of 95 U.S. cents per standard oz., (the arrangement with the U.S. Government was that the maximum price of silver be fixed in New York at 101½ cents per oz. fine, and in London at such price as was equivalent at the current rate of exchange to 95 cents per oz. standard), and until 5th May the movements in

price were merely the reflection of the two factors mentioned.

With the artificial support removed from exchange the value of the pound sterling in America weakened, and in proportion to the fall in exchange so the price of silver in London rose until by the end of March it had reached 50d. With a slight improvement in exchange the quotation for silver fell slightly, the highest price quoted in April being 49 $\frac{9}{16}$ d. and the lowest 48 $\frac{9}{16}$ d. On 5th May the U.S. Government surrendered its control over the maximum price and announced that licences for export would be freely given; three days later a similar announcement was made in London, and with British Government control removed, the price began to soar immediately. On 9th May with a "free" market competition for available supplies was keen, and the quotations which had opened at 48 $\frac{1}{2}$ d. per oz. closed at 53 $\frac{1}{2}$ d. There was a further rise of 4 $\frac{1}{2}$ d. the next day, and the quotation closed at 58d., the highest level reached since 1877.

The tone of the market, however, was difficult to gauge, and by the 21st May the silver had fallen to 51d., and for a brief period increased supplies were available. There was again an intense demand and with supplies insufficient to meet it the price was moving ever upward. By the end of May a quotation of 53d. per oz. was recorded, and from that date onwards the price continued to advance steadily. Apart from the European demand, China came on to the market as a consistent buyer, and by 24th September the closing quotation of 63d. marked the highest level so far touched in the authentic records of silver quotations. Throughout the rest of the year, with but few reactions, the price of the metal continued to advance until on 16th December it attained the unprecedented level of 79 $\frac{1}{2}$ d. per oz. Despite the other factors making for firmness, it was recognised that American exchange entered largely into the question. During 1919 the highest quotation for silver in America was \$1.39 per oz. fine, which on the

basis of the gold parity between New York and London of \$4.866 to the £1, would make the London equivalent approximately 63d. instead of the 79½d. per oz. just referred to. The high price in London was therefore mainly due to the adverse exchange, New York on London (or the low cross-rate, as it is termed) and did not actually represent the price of silver in terms of gold. Fluctuations in the London price of silver continued to be dominated by the variations in the American exchange on London, but 79½d. proved to be the highest price, and the market subsequently sagged a little and by the end of December, 1919, the metal was quoted in London at 76d. per oz. standard for cash and 74d. for forward delivery (two months), the average for the year being, as already stated, 57.059d. per oz.

The opening quotation in January, 1920, was 75½d., but, although there were the usual fluctuations, the general tendency was upward, and the average cash price for the month was 79.8461d. It was left for February, however, to usher in the world's record quotation for silver bullion; it was reached on 11th February, when the cash price was "fixed" at 89½d. per oz. standard; the next day there was a fall to 88½d. Silver subsequently declined to about 82d., around which price it fluctuated until the end of February. The average for the month was 85.005d. March saw the demand to some extent satisfied, and the average was 68.847d., and then other factors commenced to operate.

The high price of silver had resulted in the bullion value of the silver coins of many countries exceeding their value as currency, and despite prohibition against melting and export, there was a continual leakage of silver coin. Steps were therefore taken in the United Kingdom and elsewhere to reduce the fineness of silver contained in the subsidiary coins. The English Parliament passed an Act providing for the reduction of the quality of silver in the coins circulating in the United Kingdom and elsewhere



in the British Empire, from a millesimal fineness of .925 at which it was fixed in the sixteenth century, to .500. The effect of making only 500 parts in 1,000 of pure silver is worth noting. When the silver in British subsidiary coinage was .925 fine and the price of silver exceeded 66d. per standard oz., the metallic value of the coins exceeded their face value; but with the fineness of the coins reduced to 500, the price of silver bullion must exceed 122.1d. per oz. standard before the metallic contents of the coins exceed their bullion content. The new Coinage Act, 1920, (10 Geo. 5 Ch. 3) became law on 31st March, 1920, and as other European nations followed the lead of England, it was apparent that larger supplies of silver would be released to the market when the old coins were withdrawn from circulation and melted down by the respective Governments.

In the circumstances, it was not surprising that silver fell in price quickly during April and the fall was accentuated when it was found that heavy stocks of the metal had accumulated in the principal exchange centre in China-Shanghai. The lowest point touched in April was 64½d. per standard oz., the average for the month being 68.8478d., and for May, 60.010d. The price continued to depreciate in June, and, by the middle of that month, 44d. per standard oz. was touched. Then in the third week in June the U. S. Mint began to make purchases of silver to replace 350 million silver dollars that had been released under the Pittman Act. The silver, it will be remembered, was to be repurchased when silver of American production could be bought at one dollar per fine oz. The result was that prices commenced to soar for a time and quotations were on the up grade during July and August. In fact, on the 20th August, 1920, the cash price of the metal in London was quoted at 63¾d. At this period purchases on account of China had recommenced and continued to be on a fairly heavy scale, but the quotation did not advance beyond 63¾d., one important reason

being that India became a factor in the market. On the 21st June, 1920, the prohibition against the export of silver bullion and coin from India had been removed, and as earlier in the year the prohibition against using silver rupees other than as currency had also been cancelled, it became profitable to export rupees as soon as their bullion value exceeded their value as currency, due regard being had to the export charges. Small quantities of rupees were therefore exported from India to London and China during September and October, and the fall in the price of silver bullion was fairly continuous. The lowest point touched in 1920 was that recorded on 10th December, 38½d.

Variations in the price of silver during 1921 were small in comparison with those of the two previous years, the highest and lowest quotations being 43½d. and 30½d. respectively. A good deal of silver found its way on to the market, the supply being derived principally from the silver released in consequence of a reduction in the fineness of British coins from .925 to 500, while a considerable amount became available from the silver in coins withdrawn from circulation in West Africa, and melted down and sold in London. A comparatively small quantity of silver was also received from Germany, which country had demonetised her silver coinage. However, as this silver was subject to a Reparations' duty of 26 per cent. the bulk of it was shipped to New York. In the meantime the U.S.A. continued to make purchases of American produced silver and took over about 85 million ounces during the year. The course of silver prices was somewhat uneventful during 1922 ; the highest price of the year was 37½ and the lowest 30½, and the weekly chronicle, as one of the brokers said, was but a monotonous report of purchases for India or China. With silver at a low level, the United States continued her purchases for the Treasury and the amount she bought during the year brought the total taken in by the United States Treasury under the

Pittman Act, up to 149 million ounces, out of 208 million ounces required.

1923 was interesting as marking the return to normal conditions in the silver market. On the 29th May, 1923, the United States Treasury announced that silver purchases under the Pittman Act would be suspended until it could be ascertained whether the total amount authorised by the Act had actually been purchased, and the natural result was that silver, deprived of this support, dropped in value of  $30\frac{1}{16}$ d. per standard oz. The highest price during the war was  $33\frac{1}{16}$ d. and the lowest  $30\frac{1}{2}$ d.

The cessation of buying by the American Government had been a regular nightmare to silver producers in the United States, but when the inevitable happened and this artificial support was withdrawn from the market, although prices did not fall in the degree anticipated, yet all sorts of wild suggestions were made for absorbing the United States production of silver and keeping up prices. First the Americans were seized with the desire to expand the market for the metal widely. One plan was to make China a loan of 200 million ounces for 10 to 15 years at 1 dollar per oz. fine. Then a senatorial gold and silver commission was formed by the United States Senate to enquire into the production, sale and uses of gold and silver. A silver export association was also formed at Reno, Nevada, in September, 1923, with the avowed object of endeavouring to control the price of silver by concerted action in marketing the product. So far, however, nothing very striking has materialised from the various efforts and the price of silver is still subject to the ordinary laws of supply and demand—the market, as we have said earlier, now being on what may be termed a normal basis.

For the rest, the effect of these vicissitudes of the silver market on China exchange is briefly referred to in another chapter.

We have now examined the various factors governing supply, demand, and consumption of silver, and are

now better able to appreciate its inter-connection with the currency and exchange of silver-using countries.

Reference to the charts will show the reader the extent to which the price of silver fluctuates. Unlike gold, for which there is a fixed statutory price in Great Britain of £3 17s. 10½d. per standard oz., the price of silver varies from day to day ; and, as we have seen, one never knows the exact price until after the daily "fixing." Now, apart from the mining element concerned, is this fluctuating price of silver an evil ? From the point of view of an exchange more or less unstable between the silver-using countries of the East and the gold-using countries of the world, the position undoubtedly is far from satisfactory, and the adverse factors are not confined to merchants and manufacturers ; they concern this country as a complete entity. To those who state that Great Britain is not vitally interested in the future of silver-using countries, the writer replies that she is not only indirectly but directly concerned in such countries. England's interests are always large and important for two reasons : a number of her Colonies are constant users of silver, and she herself has commercial relations with all the silver-using countries of the world.

But let us investigate very briefly the subject from the point of view of those countries whose currency is mainly silver.

It is said by some currency experts that, where a country is upon a silver standard, it is as well to maintain that standard if desirous of stimulating the development of the country in regard to its exports. Experience has shown that where the currency is depreciating as compared with gold, the export trade and business of manufacturing for export tend to increase. That is said to have been illustrated in the case of the British and Dutch Colonies during the period of rapid depreciation of silver. The explanation is simple: where the export trade from the silver-using countries is with a gold standard country, the lower the

price of silver and the more stable the gold price remains for the metal, the larger will be the amount of silver received by the exporters from the European buyers for the same quantity of Eastern manufacturers. We are pre-supposing that we are dealing with an Eastern country. To put it a little plainer: suppose that twenty-five shillings in silver in China are the equivalent of twenty shillings in a gold standard country, then the price of silver falls so that the equivalent of one sovereign will buy goods in China to the value of, say, thirty silver shillings in England, a gold standard country; it is obvious that when the trader here comes to pay for purchases made in the East, he will have to give the equivalent of thirty silver shillings in settlement of his indebtedness where formerly he would only have had to give twenty-five shillings.

This, by the way, is a simple illustration of the fact that when you want to buy exchange, as it is termed, for settling your debt in a foreign country, it is to your advantage to buy at a rate which will return to you the greatest number of taels, francs, or what not, in the currency of the country to which you wish to remit the amount, say, to China; conversely, if you are in China, it is to your benefit to obtain a low rate, that is, to pay the smallest number of taels or dollars for the equivalent of golden sovereigns payable in England.

To return to the trade of the silver country with which we were dealing, the effects of a depreciating silver currency will be different where the trade of the silver-using country is with another country the basis of whose currency is silver and not gold: in this case, the lower the price of silver, the less will the Chinese exporters receive for their produce and manufactures.

Apart from the exporting country and those in business relations with it, we have to consider the remuneration for labour in the silver standard countries.

Here we must view the question from a wider aspect—

the ultimate effects on the vitality of the nation judged from its standard of living or standard of comfort. The consequences of the fall in the value of silver on the people of the country itself are not serious so long as they are able to exist on the products of their own country: they may, in fact, enjoy comparative prosperity with the increase of exports; but once the labourers are compelled to resort to imports for a part of their sustenance, conditions alter, and the depreciation in silver is deleterious in its effects because of the decrease in purchasing power of silver.

It is at this point that the real basis of foreign trade is shown. We refer to the fact that international commerce has to be measured not only in terms of money, but in terms of the products of the trading countries. Money is merely a medium for facilitating the exchange of commodities between man and man, nation and nation: consequently the crux of the matter in foreign trade is, not how much gold or silver is exchanged, but what proportion of foreign products are received in return for a given part of the products of the home country? Extend this principle to labour, and we may then measure the terms of payment by comparing the amount of labour expended in the manufacture or production of the exported commodity with that expended on the production of the imports. If we apply this to the exchange between a silver standard country and one having its monetary system based on gold, we at once realise that the depreciation of silver may have far-reaching effects.

As far as the silver standard country is concerned, it is seen that the immediate effect of falling exchange upon the national welfare is beneficial so long as the remuneration for labour and the cost of sustenance remain unchanged in terms of silver: it is advantageous in so far as the export trade of the country is expanded without a corresponding sacrifice. The ultimate effect becomes evident when the

depreciation has reached that point which renders it necessary to pay for importing commodities produced by, say, the labour of one individual in the country of origin by surrendering products prepared by the labour of two persons in the exporting silver standard country. We go further and say that, if the depreciation continue, the real return received for the silver country's national product becomes less in proportion at the expense of the economic welfare of the nation as a whole.

We do not want the reader to get the idea that the principle we have endeavoured to elucidate is merely academic reasoning: practical investigations have carried us beyond pure theory, and it has been proved that the reverse is the case. As a matter of fact, conditions similar to those set forth continue to exist in some of the silver-using countries: that they did exist in others has been proved beyond all doubt. The conclusions arrived at by the currency experts in the argument submitted to the Commission of the Republic of Mexico entirely uphold the view; and from the facts set forth in that document, it is shown that the investigations made quite supported the contention that the ability to reduce gold prices afforded by a depreciating silver standard always tends to impoverish the economic forces of those nations maintaining such a standard in their commercial relations with countries on the more stable gold standard.

By an exhaustive comparison of Mexico's export trade with her import trade, it was clearly demonstrated that Mexico had given up for some years an increasing proportion of the products of her own labour and intellectual efficiency in return for foreign products.

If, then, in a silver standard country increasing quantities of domestic commodities are given up for the same gold return—measured in goods, if necessary—how does this affect the commerce of the gold standard countries with which it trades?

The process will be gradual, and perhaps many years

may pass before the influence of the falling silver exchange is felt by the European country. The question, in its plainest form, resolves itself into a consideration of how far it is possible for a country like England to increase its exports to the silver standard country. Other things being equal, the British exports will increase in proportion with the ability of the Eastern importers to absorb our produce and manufactures. Here we must take the importers to mean the Eastern nation at large; and if the return received for their national products continues to decrease in terms of their silver currency, in the nature of things there must come a time when they will not be in a position to purchase increasing quantities of British materials: they will not have the wherewithal to pay for the latter, since taking the old economic maxim that exports pay for imports, a nation cannot go on manufacturing indefinitely for export beyond the point at which exports show a profitable return. Consequently, there must ultimately be a diminution in the production of goods for export to the gold standard country, which means there will be less goods to be exchanged for imports. As a natural sequence, then, the imports will fall, unless the prices of the British commodities imported to the East fall in gold in a similar degree to the depreciated price of Eastern produce. In other words, if the foreign consumer cannot pay the enhanced price for the goods entering his country, the imports fall off; and, assuming that those imports emanate from Great Britain, British commerce and industry must eventually suffer. There are, however, other and more complex considerations underlying this question of exchange. Wherever there is a fluctuating silver medium of exchange, the trade of merchants and manufacturers becomes invested with a speculative element which necessarily curtails operations: for if to the ordinary chances and changes of the market the ever-present risk of exchange is added, business operations become converted into gambling transactions, wherein neither expert



opinion can guide nor caution protect the shipper. One readily admits that legitimate trade under such conditions is a matter of difficulty, if not of impossibility.

It is apparent that commerce between gold standard countries is generally satisfactory to all classes of traders, for both importers and exporters know exactly the return they may expect; but in trade between a silver-using country and one on a gold basis, a large measure of uncertainty invariably exists. Whenever there is a fall in the gold value of silver, either the exporter in the gold standard country or the importer in the silver country must suffer.

To elucidate this point, we may take an instance recorded by the late Mr. C. Conant in his paper to the *North American Review* of November, 1903, reprinted in the Report on International Exchange of the same year. He took as an illustration a consignment of merchandise worth, say, \$1,000 in gold; and, assuming this shipment had arrived in Shanghai in July, 1902, when the price of silver was  $24\frac{3}{16}$ d.- $24\frac{9}{16}$ d., it would have brought in silver about 2,310 Mexican dollars. This amount the importer would have had to pay for a gold bill of exchange to be sent in settlement of the invoice. Four months later, in November, 1902, silver fell to a minimum of  $21\frac{5}{16}$ d.; the bill of exchange on London would at that time, then, have cost about 2,700 Mexican dollars, the amount necessary to settle the invoice of the consignor.

Mr. Conant, it is plain, was regarding the case from the standpoint of an importer or a foreigner carrying on an import business in China: he indicates that in his summing up; and to quote practically his own words, if the importer in China had in the meantime sold the goods at an estimated profit of 10 per cent. on the silver price of July, 1902, he would have obtained only 2,540 Mexican dollars, that is to say, 160 dollars less than the amount required to pay his invoice. The net result of the operation would be that, not only would there be no profit on the transaction, but the importer would have lost heavily in

interest on his money and in the cost of distributing the goods among the Chinese dealers.

So much for the foreign importer; but we, in Great Britain, are more intimately concerned with our own shippers, the exporters; and, in order to avoid all possible misunderstanding, we will examine the relative position of one of the piece goods manufacturers.

Let us suppose that A. Blank & Co., of Manchester, calico printers, send goods to Tientsin, which they expect to sell there for a total sum of, say, £1,000. The price of silver when the shipment was despatched was, we will say, 25d., and on this basis A. Blank & Co. have calculated the selling price which is to yield them the said £1,000. Unfortunately, by the time the calico arrives in Tientsin, the gold price of silver has dropped to 20d. per standard ounce, and this obviously means that the manufacturers will receive one-fifth less for their wares, since they are paid in the currency of the country, taels in this instance; and when Blank & Co.'s money is converted back into the British gold price, they are face to face with the bald fact that the out-turn is £200 less than they had calculated: they have lost one-fifth, and receive £800 only.

To any close observer of the position, it is fairly plain that herein lies the real reason for the disappearance of merchants' profits, which in more than one case in the export trade has led them to abandon the more legitimate and sound trading for the dangerous field of speculation in exchange. In the circumstances, there is little wonder that trade with some foreign centres tends to become more and more a gamble, forcing both exporters and importers to welter in the prevailing currency chaos in their endeavours to obtain something more than a hand-to-mouth existence. It is not only the British exporters who stand to lose in the lottery of trade with countries having an unstable exchange: the capitalist also, and every class of investor, is liable to be adversely affected in operations with these silver standard countries.

As is well known, there are a number of British investors in foreign industrial enterprises, railways, harbours, waterworks, mines, and the like, whose dividends are paid in the currency of the country in which the return is earned. If the exchange of the country is one which is at the mercy of the fluctuating price of silver, the receiver of dividends is always liable in a greater or less degree to a loss when he comes to obtain the gold equivalent of his interest. Moreover, the gold value of the earnings of these industrial undertakings correspondingly suffers in proportion to the depreciation of the currency of the country. Finally, the principal suffers in the same way whenever it is desired to convert it back into gold.

No apology is needed for giving yet another example, since it is only by investigating the transactions of the every day of life that one arrives at a proper comprehension of these intricate currency problems.

To state the matter briefly, we may assume that an investor, encouraged by the chance of earning 6 per cent. on his money, remits to a silver-using country £1,000. In course of time, silver, to quote our first example, depreciates, say, from 25d. to 20d. an ounce standard; and if the investor is desirous of converting his principal back to English gold currency, he finds himself faced with a smart loss. Silver, in which his investment now is, has shed one-fifth of its gold equivalent: consequently, on conversion, the gold value of his original £1,000 has fallen to £800, and, similarly, his interest—instead of being 6 per cent.—will amount to only  $4\frac{4}{5}$  per cent. on the sum first remitted to the silver country.

Of course, we are not losing sight of the fact that it is possible to derive a profit on exchange operations, but such belong rather to the professional broker or foreign exchange banker skilled in arbitrage business; and but seldom is it possible for Tom, Dick, or Harry to speculate in exchange with any degree of success. Then, although owing to the rise in exchange in 1916-20 between London

and Hong-Kong and China, some people have been able to seize the opportunity to bring home their funds at profitable rates, such occurrences are comparatively rare, and more often than not it is only the favoured few who are able to benefit by them.

Having got thus far, the reader may require further enlightenment on the exact connection between silver and the silver exchanges—Hong-Kong and Shanghai, for instance.

Well, without going too deeply into the question at this stage, it will, we think, be plain to the person who has perused the preceding pages that the rate of exchange in silver-using countries will rise or fall with the price of silver on the London market. If the price of silver goes up, then the price of dollars in Hong-Kong, or that of the taels in Shanghai, will follow suit. Similarly, if there be a fall in the price of the metal, the movement of exchanges will be in the reverse direction—downward. The exchange quotations, it should be noted, are based on the price of silver for the preceding day. Silver being sold on the open market like any other commodity, is the variable factor in Eastern exchange. Rates of exchange between gold standard countries signify the price at which the gold unit of one country will be exchanged for that of another gold country : in other words, gold for gold ; but the rate of exchange between the silver-using countries of the East and the gold-using countries of the West is entirely different, for the exact ratio cannot be fixed; and it is plain that all the rate of exchange expresses is the equation between the price of two things—gold and silver—and as the one is fixed and the other variable, it follows that the rate of exchange must follow the fluctuations in the price of silver. Very possibly it may not follow these fluctuations immediately or exactly: exchange may even keep at a respectful distance from the price of silver; but, sooner or later, the one will be seen to be drawing nearer to the other until parity is practically reached. Strictly speaking, the price of silver forms the

limit above which, after adding importing charges, exchange cannot rise and below which, after deducting exporting charges, exchange cannot fall.

When in the East a man is buying exchange, what he is really doing—only in nine cases out of ten he is unaware of it—is buying gold for silver, and he has to pay a price in inverse proportion to the quoted price of silver on the London market. That is to say, the lower the price or value of silver in relation to gold, the lower will be the rate of exchange; and the higher the price the buyer in the East will have to pay, for he will have to surrender a larger number of silver units for the right to receive gold units in Europe. Conversely for the seller—he is really buying silver in exchange for gold.

From a consideration of these facts, it will be obvious to the reader that we get specie points in a silver country in much the same way as we do in a gold country, and for all practical purposes this may be explained thus: Specie or silver points arise when exchange reaches that limit at which it will be cheaper to make shipments of silver to a country than to send bills of exchange; that will be the upward limit or export silver point. The lower limit, or import silver point, will arise when the rate of exchange falls so low that it will be better to draw silver from abroad than to receive bills of exchange.

The French author of *Le Portefeuille* prefers to state the problem in this way. In speaking of the exchange between two countries on a different monetary standard, he says it is preferable to use the term "Relative Par" to express the relation between the two metals—silver and gold. The relative par is an abstract expression indicating that the exact ratio cannot be fixed, since in one of the countries gold will be merchandise and, in the other, silver will be merchandise, and each will have a variable price like that of all other merchandise. The fluctuations in the price of silver in the country which considers it as a *commodity will be in an inverse ratio to the price of gold*

in the other country: if the price of silver in the first country goes up, the quotation for gold will fall almost methodically and in the same proportion in the other country.<sup>1</sup>

Now, in the gold exchanges the theory is that exchange is always hovering between the gold or specie points, that is, between the price at which gold can be sent to or drawn from a country in settlement of the balance of indebtedness. Most of the nations have a fixed rate at which the gold unit of one country is exchangeable into that of another. They consider the relative value between their own gold coin and that of any particular gold country with which they happen to be dealing, and the result is what is known as the Mint Par of Exchange, which is obtained by establishing a comparison between the two currency units based on the weight and fineness of the gold contained in the respective coins. There is a fixed Mint price for gold in most gold countries, and on this basis the nations have evolved a definite relationship between their currencies which gives the points around which the gold exchanges oscillate. The saying that the European exchanges are approaching import specie point, or export specie point, is merely another way of saying that exchange is above or below par, as the case may be; and if that fact is well understood, it is helpful in arriving at a correct understanding of the silver exchanges.

With silver, the theory is that exchange is generally tending to the equation between gold at its mint price, and silver at the London market price. Silver is, therefore, the primary basis of the exchange quotations in the

<sup>1</sup> Nous avons dû parler du *pair relatif* pour exprimer la relation qu'ont entre eux les changes de deux pays dont l'étalon monétaire est différent, parce que c'est l'expression la plus propre à rendre notre pensée; pour corriger l'idée erronée que cette expression peut faire naître dans l'esprit, disons que ce *pair relatif* est une expression abstraite, qu'il ne peut avoir aucune fixité, puisque, dans l'un des pays, l'or sera une marchandise quelconque, et que, dans l'autre, ce sera l'argent qui sera une marchandise quelconque, marchandises ayant respectivement une valeur variable comme toutes les marchandises.—*Le Portefeuille*, par P. Lepeltier.

East; and exchange is said to be so much above silver parity when it exceeds the gold price at which a quantity of silver, after adding freight, insurance, and other import charges, could be laid down in, say, Hong-Kong or Shanghai. It is so much below silver when it is below the gold price which a given quantity of silver would fetch, after deducting freight and other charges, if exported, say, to London.

Other things naturally enter into the calculation, and in general, it will be found that the same things which cause fluctuations in the gold exchanges are to be seen in the silver exchanges: but over and above trade influences, and everything of that sort, silver exchanges are always haunted by the spectre of a metal which fluctuates in value; the other influences matter little, but the frequent depreciation of silver is the *causa causans* of the whole trouble with the Eastern Exchanges on a silver basis.

There would seem to be no middle course, for even when silver appreciates and brings with it a rising exchange, all sorts of troubles arise. At no time has this state of affairs been more evident than during the war; and perhaps it will be well if we trace briefly the events of the past year or two, as far as they concern silver and the China exchanges.

The inter-connection between silver and the China exchanges has always been interesting to students of these so-called silver exchanges, and the year 1915 was watched closely as it revealed the fact that both silver and the exchanges were at last moving from that state of lethargy from which they had been suffering for so many years. The year 1916 was, however, the more notable owing to the wide difference one found between the highest and lowest telegraphic transfer rates. The range was no less than 11½d. in the case of the Shanghai tael quotation, the lowest price being 2s. 6½d. and the highest 3s. 6½d. A quarter of a century had elapsed since anything like such a range had been recorded. In 1890 the highest rate

was 5s. 3½d. and the lowest 4s. 2½d., giving a range of 12½d.

The upward movement in the price of the Hong-Kong dollar also kept pace with the rapidly appreciating price of silver, though, owing to the much better managed currency system in Hong-Kong, the monetary unit of that colony is not subject to such violent or extreme fluctuations as is the Shanghai tael. Exchange, nevertheless, follows silver very closely; and it is interesting to note that the average telegraphic transfer rate for 1916 was 2s. 1¾d. as against 1s. 8½d. in 1903.

This connection between silver and the exchanges of Hong-Kong and Shanghai continued to be very marked during the whole of 1917. That year, as we have seen was one of high-priced silver and, *pari passu*, high exchange. The average price of the metal in January, 1917, was 36·682d. per ounce, it reached its highest average in September—50·920d. (the highest quotation being that of 21st September, 55d.). The quotation then began to fall, and the average for December was only 43·0677d., against an average for the whole year of 40·853d. The average exchange, Shanghai on London for January, was 3s. 5½d. per tael, that for Hong-Kong was 2s. 4½d. per dollar. In each case exchange variations followed closely on the heels of silver throughout the year, the average in September, 1917, being 4s. 9½d. for the Shanghai tael and 3s. 1¼¾d. for the Hong-Kong dollar. The highest quotation for Shanghai taels in 1917 was that ruling from 8–26th September, 4s. 10½d.; the highest for Hong-Kong dollars at the same time being 3s. 2¾d. When silver began to fall in September, exchange fell too; but like silver, the average price for December—4s. 2¼¾d. in the case of Shanghai and 2s. 10½d. Hong-Kong—was considerably higher than that for January, 1917.

The history of exchange for 1918 follows very much the same course, the rates for telegraphic transfers—Shanghai



and Hong-Kong on London—moving up and down with silver until the months of July and August. At that period the shortage in silver was beginning to make itself felt pretty acutely. There was not enough to go round. European countries were all faced with the cry for more subsidiary coins; America told the same tale; India was absorbing huge quantities of the metal; China, having made hay while the sun shone, had sold during 1917 rather more silver than she could spare, and found herself towards the middle of 1918 faced with a real shortage of the metal both for payment of her troops and for trade requirements. In these circumstances, exchange, instead of following silver at the usual respectful distance, broke away; and the Shanghai tael went up and up above the parity of silver, until, in the first week in September, the nominal price of 5s. for telegraphic transfers—Shanghai on London—was quoted, and it was reported that business had been done at 5s. 4d. per tael. Silver was then only 49½d. per ounce, that being the maximum price fixed by the British Government. Hong-Kong dollars were quoted at 3s. 7½d. The highest exchange for the year was noted in September, when Shanghai taels reached 5s. 6d. and Hong-Kong dollars 3s. 8½d. The average exchange for taels during 1918 was 4s. 8¼d. and for dollars 3s. 2¼d. The lowest exchange quoted in Hong-Kong and Shanghai was 2s. 11⅝d. and 4s. 2½d. respectively.

To find a period with similar quotations, it is necessary to search the records back for twenty-five years (i.e. in 1890), when the highest quotation for Shanghai taels was 5s. 3½d. In 1919 the China exchanges, like silver, broke all past records; that for the Shanghai tael reached the rate of 7s. 10d., and business was done outside the banks at even higher levels, considerably over 8s. per tael being paid at times for telegraphic transfers. The lowest rate for the year was 4s. 7d., and the average rate 5s. 7¼d.; its lowest quotation was 3s. 1d., and the average rate for the

whole of 1919, 3s. 9½d. But the peak had not yet been reached. In February, 1920, with the price of silver in London at a record level, the rates of exchange in Shanghai and Hong-Kong on London also broke all past records by touching 9s. 3d. and 6s. 2d. respectively, both quotations being for telegraphic transfers. Since then the history of exchange has been largely that of silver; every movement in the price of the white metal has been faithfully reflected in the exchange quotations; if silver appreciated, exchange would follow in its wake; if silver depreciated, then exchange would also fall. We need not go into detail, but the following figures will indicate how close is the connection, between silver and the silver exchanges—

Year.	Average price of Silver. per oz. standard.	Average rate of exchange Shanghai on London. per Shanghai tael.	Average rate of exchange Hong-Kong on London. per Hong-Kong dollar.
1920	61·590d.	6s. 0·86d.	4s. 3·598d.
1921	36·841d.	3s. 6·304d.	2s. 7·511d.
1922	34·405d.	3s. 4·226d.	2s. 6·082d.
1923	31·921d.	3s. 1·453d.	2s. 3·363d.

There are other matters in connection with these silver exchanges to which we shall have to refer in the course of our examination of the currency of Hong-Kong and China Proper; but with these facts concerning silver before him, the reader will be able to approach the subject, fully cognisant with at least the fundamental principles which underlie this great question of China exchange.

## CHAPTER XXI

### HONG-KONG

ITS CURRENCY : PAST AND PRESENT—THE CIRCULATION OF  
VARIOUS DOLLARS—ATTEMPTS TO INTRODUCE A GOLD  
STANDARD—CHOPPED COINS AND BANK NOTES : EXCHANGE  
—BILLS OF EXCHANGE : STAMPING AND LAW

HONG-KONG is an island in the South of China, situated at the mouth of the Canton River. It is about 90° S. by E. of Canton, and consists for the most part of barren and desolate rocks, which rise in a precipitous ridge to a height of 1,800 ft. In breadth, the Island varies from 2 to 5 miles, and the area is approximately 32 square miles. The direction in which Hong-Kong lies is from N.W. to S.E., and it is separated from the mainland by the Straits of Ly-u-mun, which gradually expand into a beautiful and magnificent harbour, with an area of about 10 square miles. It is this harbour which makes Hong-Kong the deep sea port of Southern China, and gives to it its pre-eminent position as the centre for British commerce with China, Japan, and the other great nations of the East. Hong-Kong itself did not actually become a British Possession until 1842, in accordance with the Treaty of Nanking, but it was ceded to Great Britain by China in 1841.

Opposite the Eastern extremity of the mainland lies the Peninsula of Kowloon; the Chinese ceded this to Great Britain in 1861, and it is now included in the Colony of Hong-Kong.

The total estimated population of the whole of the territory in 1921 was 686,680, but in this number are included the inhabitants of various portions of Chinese territory leased to Great Britain for ninety-nine years.

The exact area of the whole of the territory called the Colony of Hong-Kong is now 391 square miles, which shows the density of the population to be 1,756 per square mile.

The existing currency of Hong-Kong, it is said, recalls the earliest phase of currency in the seventeenth century "Plantations in America"; and just as the old silver "Piece of Eight" nearly three centuries ago was found to be dominating the currency of the ancient West Indian Colonies, so the Mexican dollar, which is the lineal descendant and modern representative of the piece of eight, is to be found dominating the currency of Hong-Kong to-day.<sup>1</sup>

The Imperial Government all along has done its best to prevent this, but the silver tradition to which the Chinese cling so tenaciously has proved insurmountable; and Hong-Kong has been drawn, willy-nilly, into the Chinese "currency area."

The circulation of silver dollars in Hong-Kong was in a fairly advanced state long before the advent of the British into the Colony. The old Spanish dollars had drifted to various parts in China—Amoy, Canton, and Ningpo—in connection with the trade instituted by the Spaniards with the Chinese in the year 1575. The Spanish base was at Manila in the Philippine Islands, from which they carried on a desultory kind of commerce with China, and in course of time their dollars percolated to Hong-Kong. After the British took over the Island from the Chinese, matters were allowed to go on without interference for a time, until, on 29th March, 1842, a Proclamation was issued making legal tender Spanish, Mexican, and other silver dollars, the rupee of the East India Company, and the copper "cash" current in China. This Proclamation was applicable to all bazaar dealings, etc., but not to mercantile transactions. Two months later, on

<sup>1</sup> Cf. *History of Currency in the British Colonies*, p. 371 et seq. (R. Chalmers).

27th April, 1842, a further Proclamation was issued making "Mexican and other Republican dollars" the standard in all Government and mercantile transactions at Hong-Kong. This Proclamation was issued by Sir Henry Pottinger, then Plenipotentiary and Chief Superintendent of the trade of British subjects in China; and, although it is to be presumed that such action was not taken without reference to the Home Government, yet it is certain that it viewed his efforts with disfavour. The British were anxious to extend everywhere in their Colonies the circulation of English coins, and they saw no reason why Hong-Kong should be any exception to the rule. Accordingly, on 28th November, 1844, they issued a new Proclamation revoking Sir Henry Pottinger's Proclamation and fixing British silver as the nominal standard, "with the following coins rated for concurrent circulation: East India Company's gold Mohur (coined since 1st Sept., 1835), £1 9s. 2d.; Rupee, 1s. 10d.; Dollars—Spanish, Mexican, and South American, 4s. 2d.; Chinese 'Cash' 288, 1s."<sup>1</sup>

In passing this Act, the Government had not for one moment realised the actual position. The Chinese always, except in the most trivial affairs, carried out their transactions through the medium of silver by weight and not by count, and what they did was simply to ignore the new Proclamation and to continue on the even tenor of their way: the silver dollar was the one and only monetary unit they recognised.

Apart from the Chinese, there were others who preferred to treat the Proclamation as a dead letter; and everywhere, except in Government offices, accounts continued to be kept in dollars and not in sterling. As for the Government itself, it persisted in considering the Colony to be on a standard of currency similar to its other Colonies; and when, as the outcome of the Australian gold discoveries, silver was made limited legal tender for 40s. in that country

<sup>1</sup> R. Chalmers, *History of Colonial Currency*, "Hong-Kong," p. 73.

(on 16th October, 1852), the measure was made to apply also to Hong-Kong, on the supposition, evidently, that the adoption of the Gold Standard throughout the East was within measurable distance. So convinced were they of the correctness of their decision, that the new measure was made law in Hong-Kong as from 27th April, 1853; and from that time forward Hong-Kong was held to have a gold currency with subsidiary coins of silver and copper. However, although the Imperial Government in the fullness of its heart then, more than ever, imagined sterling to be as much the money of Hong-Kong as of the United Kingdom, it was quite evidently deceiving itself, for the Royal Proclamation of 1844, from its very inception, was inoperative and of none effect.

For a time, matters drifted on in this unsatisfactory state, but a curious incident happened which of itself gave impetus to the over-riding of the legislative enactment: a legal decision by the Colonial Chief Justice was given to the effect that "when contracts were made in dollars, payment must be made in such coins and not in those specified in the Queen's Proclamation of 1844."<sup>1</sup> The Colonial Government apparently acquiesced in this decision, which hit at the very root of its currency policy, without demur; and in course of time the Mexican dollar became the recognised standard coin of the Colony. The Chinese thus came to regard the coins with favour; they were practically obliged to, for the stock of old Spanish dollars which had previously reached them from the Philippine Islands had rapidly decreased in proportion to the increase in trade in the East.

Hong-Kong, nevertheless, was not formally and finally recognised as outside the currency area of Great Britain until 9th January, 1863, when a new Proclamation was issued cancelling all former Proclamations and making the Mexican dollar or other silver dollar of equivalent value, as authorised from time to time, the only unlimited legal

<sup>1</sup> *Colonial Currency*, "Hong-Kong" (Chalmers), p. 374.

tender. Provision was also made for the minting in London of certain subsidiary coins of silver and copper.

The authorities having arrived at this stage might have been expected to leave well alone; but, no! they were imbued with the idea, and in this they were backed by the bankers, that a British dollar should be in circulation; and we may almost imagine the official mind arguing thus to itself: "What more simple than to fix up mints, and to coin a real good old British dollar—surely with the British imprint on a coin, nothing in the world is easier than to put the dollar into circulation among the Chinese?" At any rate, they were convinced that the way was open for the introduction of a British dollar, and very soon legal sanction was given for the opening of mints and the coining of dollars in Hong-Kong. Chalmers, in his *History of Colonial Currency*, says that the hope was that these dollars would extend the British sphere of influence in the East and provide a "clean" currency which would defeat the exactions of the Chinese compradors. Provision was made for minting British dollars of the weight of 416 gr. 900 fine; half-dollars were also struck of proportionate weight and like fineness; and of the subsidiary coins, a 20-cent piece and a 5-cent piece were issued.

Notwithstanding that these Hong-Kong dollars were moulded after the fashion of the Mexican dollar, and were 416 gr. (900 fine), they failed to catch on with the Chinese; other circumstances, to wit, the adverse exchange and a minting charge (seigniorage) of about 2 per cent. combined to make the new issue a failure, and before very long the dollars would only be accepted by the Chinese at a discount of 1 per cent. or more.

This state of affairs dispelled all idea the Colonial authorities had of continuing to coin their own dollars; and, within a brief space of two years, the Mint at Hong-Kong was dismantled, the machinery scrapped, and the whole lot sold to the Japanese. The Mint had been open from May, 1866, to May, 1868. Some years afterwards

it is recorded that the British dollars were to be found circulating at par with the Mexican coin; while the subsidiary coin, which at one time depreciated to no less than 35 per cent., gradually rose until par was reached; and then, owing to their convenience, a substantial premium on their nominal value was established by those who were eager to have the coins.

Such is the history of this episode, and one reflects: Would the British have done better to have persevered in their attempt to introduce their dollar? In the circumstances, we are inclined to consider they did the best thing possible in giving up the attempt; in the long run they might have succeeded, but it would have been a costly business for the Colony, which at that time could ill afford to have its currency fall into disrepute.

Other dollars have from time to time found their way into Hong-Kong, notably the American trade dollars, which we have met elsewhere, and the Japanese silver yen pieces. The "trade dollars" were 900 fine and weighed 420 gr., while the Japanese coins (also 900 fine) weighed 416 gr.; but neither of these coins was admitted to legal tender in the Colony, despite the praiseworthy efforts of the business community to get the Government to sanction their circulation, and in course of time the coins disappeared.

Matters have remained practically in this state down to the present day, the only alterations, or rather additions, for many years being the issue of 5, 10, 20, and 50-cent subsidiary silver coins, and a 1-cent. copper piece. Before, however, dealing with the monetary circulation as it now exists in Hong-Kong, it will be advisable to take cognisance of two things—"chopped" dollars and note issues, which are on a rather peculiar footing.

Of Government notes there are none: the paper circulation consists entirely of the notes of the three British banks established in the Colony: the Hongkong and Shanghai Banking Corporation; the Chartered Bank of



India, Australia and China ; and the Mercantile Bank of India, Ltd. Each of the banks is allowed to issue its own bank notes to the amount of its paid-up capital, which in the case of the Chartered Bank stands at £3,000,000, and of the Hongkong and Shanghai Banking Corporation \$20,000,000 (say, £2,000,000—taking the dollar at 2s.). The capital of the Mercantile Bank of India is £1,050,000. The note-issuing powers of the banks are not confined to Hong-Kong alone—the authorisation to issue bank notes includes other places at which the banks have branches in the East.

The reserves which the banks are bound to keep against their note issues are fixed by the Colonial Government from time to time, and generally take the form of coin, bullion, and securities equal to one-third of their paid-up capital, which is held by the Crown Agents for the Colonies, and is exclusively available for the redemption of the bills and notes, payable to bearer on demand, issued by the banks.

There remain to be mentioned the “chopped” dollars. The difference between a clean dollar and one that has been chopped is this: The Chinese stamp or place their seal on all dollars coming into their possession, and the object of their placing this form of trade mark on the coins is to guarantee that the dollar is a proper dollar; in other words, when a Chinaman finds a well-known seal or “chop” on a coin he is sure that it is what it purports to be—a good dollar. John Chinaman will generally think twice before accepting a chopped coin on which a known chop cannot be distinguished. Each time this chopping or punching takes place, the effect is to remove a minute portion of the dollar; and although it is done in order to “prove” that the dollar contains something more than a mere silver casing, the ultimate effect is to deface the coins and to cause them to lose in time an appreciable part of their value.

A dollar without any of these marks is termed a “clean” dollar; and when it is realised that dollars which have

been stamped many times lose their "ring," in addition to a part of their original worth, it will be readily understood that they are inferior in value to clean dollars, which for that reason command a premium in Hong-Kong. Correctly speaking, clean Mexican dollars are no longer current, and do not circulate: they are bought and sold as a commodity—silver. For the rest, it may be stated that heavily chopped dollars will generally drive from circulation clean dollars; even in China we get the inexorable working of Gresham's Law.

Chopped dollars, it must be remembered, are legal tender money in the Colony: they were recognised as such as long ago as 1865, under the Government's Proclamation, published in the *Hong-Kong Gazette* of 21st October of that year. However, although "chopping" might almost be said to have legal sanction, chopped coins are not taken by count: they are measured by weight, and 717 Canton taels weight are said to be equal to 1,000 dollars.

The legal money in Hong-Kong at the present day is, then, Mexican, British, and chopped dollars. Why chopped Mexican dollars were ever allowed to become legal tender it is difficult to say: it is certainly true that they had been in use as currency in the Province of Canton for many years, more particularly for the purposes of foreign trade; and equally certain that the Government of Hong-Kong did its best to get the Chinese to prohibit the practice of chopping at the time the Canton coinage was introduced in 1890. The Chinese could, or would, do nothing; and from that time it appears to have been the policy of the Colonial Government to maintain a currency system as closely allied as possible with that in force in South China. Canton being the trade centre, and Hong-Kong its deep sea port, there was good reason to suppose that a divorce between the currency of the two places could be prevented, but other conditions have arisen to nullify the efforts of the Government in this direction.

They did, as it happens, endeavour to replace the "chopped" Mexican dollars by good sound British coins, for, in virtue of an Order in Council of 2nd February, 1895, we find that another British dollar was coined of the same weight and fineness as the former Hong-Kong dollars, viz., 416 gr. 900 fine. The new coins were struck at the Royal Mints in Bombay and Calcutta. They were stated to be for use in Hong-Kong and the Straits Settlements, and this is the dollar which, as we saw, is no longer current in Singapore.

It has not served, however, to discredit "chopped" Mexicans, which continue to circulate alongside the British dollars of 1895; it should be noted that the chopped coins are still dealt in by weight and not, as in the case of the British dollars, by count. In the circumstances, one would naturally expect this to be essentially the case where the sole basis of exchange was the value of silver in terms of gold; but, as it turns out, this is one of those curious cases which now and again crop up in exchange, and although rates are always governed to a considerable degree by variations in the price of the metal on the London market, we have here another factor with which to contend.

Ever since 1872, the Hongkong and Shanghai Banking Corporation in Hong-Kong has been permitted by the Colonial Government to issue notes of the denomination of \$1, and, for various reasons, the principal of which appears to be their utility as a substitute for clean dollars (by taking notes, one saves certain charges exacted by the suppliers of clean dollars), these small bank notes are very popular among all classes of the community. The Bank is known to the Chinese as "Wayfong," and its notes enjoy a popularity among the natives comparable only with that enjoyed by the Bank of England notes in Europe. The more the notes have found favour with the Chinese, the less has been the demand for silver dollars in Hong-Kong for trade purposes; and, as a result, the

notes frequently command a premium as compared with silver. That at least was the position down to about the end of 1916, when other factors intervened. Silver, as we have seen in the previous chapter, rose very considerably in price in London; and so keen was the demand in Europe and India for coinage purposes, that a considerable portion was drawn from the East (Shanghai and Hong-Kong). The drain was serious: it became necessary for the Government of Hong-Kong to prohibit the export of the metal from the Colony, and the following curious result was witnessed. The natives wanted silver dollars to send to Shanghai, and were, therefore, prepared to take less than, say, 5 dollars for a 5-dollar note, which is equivalent to saying that silver was at a premium, or the note was at a discount, which, of course, was a complete reversal of the usual position. It was an unsatisfactory state of affairs, and tends to illustrate the disadvantages which have arisen out of adherence to a silver standard. To the student of exchanges, the matter thus appears to bristle with difficulties; and, although in practice it is not difficult to carry out dealings, it is more difficult when a person with an inquiring turn of mind attempts to find out for himself how it is all worked out. Still, taken in conjunction with what we have said in the pages "On Silver," the following explanation may serve to make the business clearer.

We know that the fundamental basis of exchange is the gold value of the silver content of the dollar, but there are one or two other factors, or, we had better call them influences, which affect rates. The first is the state of trade; the other, the cost of turning silver bullion into coin money and "laying" it down in the country where it is legal tender. With China, this cost may be estimated at approximately 3 per cent. Now, if there be a very large export trade from China, then exchange will be above the laying-down price of the silver dollar, and *vice versa*. If there is a large import business, and there is a heavy demand upon the banks for remittances of, say,

telegraphic transfers to London and a limited export of merchandise from Hong-Kong, then the tendency will be for the rate to be under the laying-down cost of silver. In reality, all transactions are governed by these factors: and the actual basis is the cost of the seigniorage of British dollars; and the other charges relative to silver shipments, such as shipping, insurance, and loss of interest, all of which have to be taken into account. These charges make up the 3 per cent. to which we have referred, and may be put at 2 per cent. for seigniorage and 1 per cent. for the insurance and other incidental expenses. Added to the price of silver, these result in what is known as the laying-down cost, which, as we have stated, gives an approximate idea of what the exchange quotation should be. But there is still the difficulty about the notes. The principal rates of exchange with the East are those for telegraphic transfers, and this particular quotation between Hong-Kong and London is taken to mean "payment in notes"; hence it follows that to the above charges must be added the premium on bank notes in Hong-Kong—the result will be the exchange parity. If there is no premium on bank notes, the latter factor is, of course, ignored.

*To avoid misapprehension, it may be said that banking and mercantile custom in Hong-Kong recognises this payment in notes as the basis for all exchange and business operations.*

Now let us glance down one of the exchange lists, one of which is given at the foot of p. 375, and endeavour to see what we can read into its mysteries.

Hong-Kong exchange quotations are rather more lengthy than some of those given in the other centres.

The Telegraphic Transfer selling rate will be quite known to our readers by this time, and calls for no comment beyond saying that it represents the amount of sterling which will be transferred to London by wire in exchange for 1 dollar local currency. The demand rate, it will be

seen, is  $\frac{1}{16}$  d. better than telegraphic transfer quotation—more sterling is given in exchange for 1 dollar owing to the longer time the buyer will be out of his money; and with the four months' sight rate, the difference between that and demand simply amounts to the interest the buyer receives on his money for the time it is in the banker's hands until payment. The Australian rates call for no comment. "Shanghai T.T. and d/d" (Telegraphic Transfer and demand drafts) indicates the number of taels which the banker will sell per 100 Hong-Kong dollars. "Singapore T.T. and d/d" also represents that  $95\frac{1}{2}$  Singapore dollars will be given for each 100 dollars (Hong-Kong currency); the Japan rate equals  $104\frac{1}{4}$  yen for 100 Hong-Kong dollars; the Manila rate equals 107 pesos for 100 dollars; and the "Indian T.T." shows that for 100 dollars paid in Hong-Kong the bank will pay in India 166 rupees, the payment being advised by telegram; "d/d" is the

## RATES OF EXCHANGE

SELLING	BUYING
(i.e. the rates of exchange at which the Banks sell gold bills of exchange).	(i.e. the rates of exchange at which the Banks buy gold bills of exchange).
London T.T. . . . . $2\frac{2}{3}$ - $7\frac{8}{16}$	London T.T. . . . . $2\frac{3}{16}$ - $1\frac{16}{16}$
" d/d . . . . . $2\frac{2}{3}$ - $15\frac{16}{16}$	" d/d . . . . . $2\frac{3}{16}$
" 4 m/s Bank. $2\frac{3}{16}$ - $3\frac{16}{16}$	" 30d/s . . . . . $2\frac{3}{16}$ - $5\frac{16}{16}$
Sydney & Melbourne d/d . . . . . $2\frac{2}{3}$ - $15\frac{16}{16}$	" 60 d/s . . . . . $2\frac{3}{16}$ - $7\frac{16}{16}$
Other Australian Ports d/d . . . . . $2\frac{2}{3}$ - $15\frac{16}{16}$	" 90 d/s . . . . . $2\frac{3}{16}$ - $9\frac{16}{16}$
Shanghai T.T. and d/d 70	" 4 m/s L/C . . . . . $2\frac{3}{16}$ - $11\frac{16}{16}$
Singapore T. T. and d/d . . . . . $95\frac{1}{2}$	" 4 m/s D/P . . . . . $2\frac{3}{16}$ - $13\frac{16}{16}$
Japan T.T. and d/d. $104\frac{1}{4}$	" 6 m/s L/C . . . . . $2\frac{3}{16}$ . $15\frac{16}{16}$
Manila T.T. and d/d 107	Sydney & Melbourne 30 d/s . . . . . $2\frac{3}{16}$ - $15\frac{16}{16}$
India T.T. . . . . 166	Other Australian Ports 30 d/s . . . . . $2\frac{4}{16}$ - $1\frac{16}{16}$
" d/d . . . . . $166\frac{1}{4}$	San Francisco and New York 30 d/s . . . . . $54\frac{1}{2}$
San Francisco and New York T.T. . . . . $53\frac{1}{2}$	San Francisco and New York 60 d/s . . . . . $54\frac{1}{2}$
San Francisco and New York d/d . . . . . $53\frac{1}{2}$	San Francisco 4 m/s. . . . . $55\frac{1}{2}$
Batavia d/d . . . . . $128\frac{1}{2}$	India d/d and 7 d/s. . . . . 167 $\frac{1}{2}$
France T.T. . . . . $311\frac{1}{2}$	" 30 d/s . . . . . 168
" d/d . . . . . 312	France 4 m/s . . . . . $323\frac{1}{2}$
Saigon T.T. and d/d. $3\frac{3}{4}\%$ pm.	
Bangkok T.T. and d/d $68\frac{1}{2}$	

price for demand drafts (i.e.  $166\frac{1}{4}$  rupees in exchange for 100 dollars). Exchange on San Francisco and New York is quoted in United States gold dollars for 100 Hong-Kong dollars, so that, in this case,  $53\frac{1}{4}$  U.S. dollars will be paid in New York or San Francisco by wire; or, if the money is sent by demand bill,  $53\frac{1}{4}$  U.S. dollars will be paid on demand on payment in each case of 100 dollars in Hong-Kong.

The Batavia quotation is for guilders; and on the day our list was current, 100 Hong-Kong dollars would purchase, in Hong-Kong,  $128\frac{3}{4}$  guilders (or florins) in the form of a bill payable on demand drawn on Batavia. The French rates " $311\frac{1}{2}$ " and " $312$ " are for francs in each case, in exchange for 100 Hong-Kong dollars. The Saigon rate is given as " $3\frac{3}{4}$  premium," which means that 100 Hong-Kong dollars will purchase  $103\frac{3}{4}$  Indo-China piastres whether payable by wire or by demand draft.

The Bangkok tical is worth considerably less than the Hong-Kong dollar; therefore,  $68\frac{5}{8}$  Hong-Kong dollars will purchase 100 ticals. The buying quotations are given by way of comparison, and need little explanation: " $30$  d/s," " $60$  d/s," and " $90$  d/s" are all for first-class bankers' bills drawn on London and the other centres named at 30, 60, and 90 days after the bills have been sighted (or presented for acceptance), plus the usual three days' grace in each case. The " $4$  m/s L/C" rate is for bills drawn under first-class letters of credit; " $4$  m/s D/P" rate is the price for those bills against which the bankers in London will not deliver the documents until the bill is paid. For these documents on payment bills, it will be observed, the banker will give less than he would in the case of one "documents against acceptance"—the seller has to surrender  $\frac{1}{8}$ d. more in Hong-Kong for each dollar.

The other expressions have already been explained.

The stamps on bills of exchange, as laid down

in Hong-Kong Ordinance, No. 38 of 1902, are as follows—

*Bank Cheque.* Payable on demand to any person, to bearer, or order—5 cents.

*Bill of Exchange.* Drawn out of, but payable on demand within the Colony, not being a cheque, and bearing the date on which it was made—5 cents.

Bill of any other kind whatsoever, except a cheque or bank note, and promissory note of any kind whatsoever, except a bank note—

From dollars	00	to dollars	10	.	.	free
"	"	10	"	"	250	5 cents
"	"	250	"	"	500	10 "
"	"	500	"	"	1,000	20 "
"	"	1,000	"	"	2,000	50 "
"	"	2,000	"	"	3,000	1 dollar
"	"	3,000	"	"	5,000	1-50 "
"	"	5,000	"	"	10,000	2-00 "
"	"	10,000	"	"	15,000	3-00 "
For \$5,000 additional or part thereof, \$0-50.						

The Ordinance gives the following notes—

*Note 1.* A Bill of Exchange for exactly \$250 to be charged 5 cents, and so throughout the table.

*Note 2.* When Bills of Exchange or other such documents are drawn in sets of two or more, half the above duties to be charged on each part of a set. If the duty be 5 cents, the first part of the set shall be charged 3 cents and the other parts 2 cents each.

*Note 3.* In the case of a Bill of Exchange drawn out of and payable on demand out of the Colony, the duty payable on any such bill of exchange, when it is negotiated within the Colony, shall be 5 cents.

*Note 4.* In the case of bills in sets drawn out of the Colony, the whole duty shall be payable on that part of the set which is first presented for payment on acceptance, or is first otherwise negotiated, the other parts of the set being free.

A note or protest with regard to any promissory note or bill of exchange requires a 75 cents stamp.



Bank notes, or other obligations for the payment of money issued by any banker or bank company in the Colony for local circulation, and payable to bearer on demand—1 per cent. per annum on the average value of such notes in circulation.

The law in regard to bills of exchange is set out in Hong-Kong Ordinance No. 3 of 1885 (4th May, 1885), which in all essential particulars is the same as the English Bills of Exchange Act of 1882. The following are the principal sections to which attention should be directed—

SECTION 4.—(1) *Inland Bills*. An Inland Bill is a bill which is, or on the face of it purports to be, (a) both drawn and payable within the Colony of Hong-Kong; or (b) drawn within the Colony upon some person resident therein.

(2) *Foreign Bills*. Any other bill is a foreign bill.

(3) Unless the contrary appear on the face of the bill, the holder may treat it as an Inland Bill.

SECTION 9.—*Sum Payable*. (1) The sum payable by a bill is a sum certain within the meaning of the Ordinance, although it is required to be paid—(a) with interest; (b) by stated instalments; (c) by stated instalments, with a provision that, upon default of any payment of any instalment, the whole shall become due; (d) according to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill.

SECTION 9.—(3) *Interest*. Where a bill is expressed to be payable with interest, unless the instrument otherwise provides, the interest runs from the date of the bill and, if the bill is undated, from the issue thereof.

SECTION 14.—Where a bill is not payable on demand, the day on which it falls due is determined as follows: (1) Three days, called days of grace, are in every case where the bill itself does not otherwise provide, added to the time of payment as fixed by the bill, and the bill is due and payable on the last day

of grace, provided that (a) when the last day of grace falls on Sunday, Christmas Day, Good Friday, or a day appointed by Proclamation in the *Gazette of Hong-Kong*, as a public fast or thanksgiving day, the bill is, except in the case hereinafter provided for, due and payable on the preceding business day; (b) when the last day of grace is a Bank Holiday (other than Christmas Day or Good Friday), or when the last day of grace is a Sunday and the second day of grace is a Bank Holiday, the bill is due and payable on the succeeding business day.

SECTION 25.—*Procurator Signature*. A signature by procurator operates as notice that the Agent has but a limited authority to sign, and the principal is only bound by such signature if the Agent in so signing was acting within the actual limits of his authority.

SECTION 44.—Part of Sub-section 2. Where a foreign bill has been accepted as part, it must be protested as to the balance.

SECTION 51.—(2) Where a bill, appearing on the face of it to be such, has been dishonoured by non-acceptance, it must be duly protested for non-acceptance; and where such bill, which has not been previously dishonoured by non-acceptance, is dishonoured by non-payment, it must be duly protested for non-payment. If it is not so protested, the drawer and endorsers are discharged.

Where a bill does not appear on the face of it to be a foreign bill, protest thereof in case of dishonour is unnecessary.

An extremely useful piece of legislation was passed by the Hong-Kong Legislative Council in 1921—it settled the vexed question as to which rate of exchange is to be taken when foreign bills are paid—the rate ruling at the date of maturity of the bill, or the rate ruling when the bill is actually paid. The query arises particularly in those cases where past due bills are concerned. The Hong-Kong Bills

of Exchange Ordinance, 1921, is very definite; it contains one clause only, and reads—

“Where a bill payable is drawn out of but payable in this Colony, the amount of the bill, if paid in this Colony and in the currency of this Colony, shall, in the absence of any expressed stipulation, be calculated according to the rate of exchange for sight drafts in this Colony on the day on which the bill is actually paid.”

Now let us turn to the question of trade.

Before dealing with the trade of Hong-Kong, there is one point which might be noted in regard to the stamping of bills of lading. A bill of lading, or ship's receipt (where bills of lading are not used), requires the following stamps: When the freight is under 3 dollars, for each part of every set, 10 cents; when the freight is 3 dollars or more, for each part of every set, 20 cents.

### **Trade.**

The position occupied by Hong-Kong in relation to the commerce of China and the East generally is similar to that occupied by that great emporium of the Straits Settlements and Federated Malay States (Singapore). Hong-Kong has an enormous transit business with the rest of the East, Great Britain and her Colonies, America, and Europe; and at the same time is the trade centre for the principal commodities dealt in by China. Sugar, flour, salt, rice, coal, oil, raw and manufactured cotton, hemp, and cement are but a few among the many articles of commerce passing through the hands of the firms established there. Opium, which used to be a very important article in the trade of the port, is, owing to the efforts of the various Governments, gradually falling into disrepute, and it is to be hoped that before many years the trade in the drug will be a negligible quantity. Silk from Canton and other districts of China finds a good market in Hong-Kong, which is perhaps responsible for the major portion

of the silk trade of China. The China tea business is also largely in the hands of Hong-Kong firms.

Prior to the year 1918, no official trade returns were issued, but since that date the Government have regularly published the statistics. However, these do not form a real criterion of the actual commerce of Hong-Kong, since, as we have said, the Colony acts as a port of distribution for a large number of countries in the East and elsewhere. As it is, statistics are somewhat belated, but the total imports into Hong-Kong during 1921, were valued at £81,940,000, while the exports were valued at £85,673,234.

In the imports the United Kingdom's share was £8,457,000, and in the exports, £781,741. The principal exports from the United Kingdom to Hong-Kong in 1921 comprised piece goods and yarns, £2,515,000; woollens, £715,000; iron and steel manufactures, £915,000; machinery, £783,000. The principal imports into the United Kingdom from Hong-Kong during the same year included preserved ginger, £81,000; feathers, £39,000; Hides, £23,000.

### The Currency.

It is a little difficult to give the nomenclature of the coins current, but for the purposes of reference it may be said that they are—

SILVER.	British dollar weighing 416 grains, 900 fine, and containing, therefore, pure silver 374·40 grains.					
	Mexican dollar—on an average weighs 417·36 grains, 900 fine = 375·62 grains pure silver.					
	Subsidiary coins—50 cent piece 209·52 gns. 800 fine					
	20	"	"	83·81	"	"
	10	"	"	41·90	"	"
	5	"	"	20·95	"	"

COPPER. 1 cent piece.

Then there are the bank notes of the banks to which we have referred, which are issued in denominations of \$1 and upwards. According to the Colonial Report on Hong-Kong, issued in May, 1919, the currency of the Colony consisted (in addition to the notes we have mentioned) of British, Hong-Kong and Mexican dollars, and

of subsidiary coin, which had remained at par throughout the financial year.

The total issue of subsidiary coins, less those demonetised, then amounted to \$20,764,370, nominal value. They were up to the year 1905 readily absorbed at par, large quantities being taken by the neighbouring provinces of China. During 1916 ten-cent pieces of the face value of \$5,028,000 were shipped to England for purposes of demonetisation. The discount which prevailed between 1905 and 1916 was attributable to the immense quantity of similar coin minted at Canton, in addition to the amount of Hong-Kong coin minted largely in excess of the needs of the Colony itself.

In 1905 the Hong-Kong Government ceased the issue of subsidiary coin, and in 1906 it started to demonetise all its subsidiary coinage received as revenue. This policy has been followed continuously ever since, except during a brief period in 1911. Up to the end of 1918 coin to the face value of \$23,235,459 had thus been redeemed. The total issue by the Hong-Kong Government was of the face value of about \$44,000,000.

### Weights and Measures.

Most of the British weights and measures are used in different circumstances in Hong-Kong, principally among the Europeans; but, needless to say, all the Chinese weights and measures are very much in evidence everywhere. These are—

Tael	.	.	.	1-1/3 oz.	avoirdupois
Picul	.	.	.	133-1/3 lbs.	"
Catty	.	.	.	1-1/3 lbs.	"
Chek	.	.	.	14 1/8 inches	
Cheung.	.	.	.	12-3/16 feet	

## CHAPTER XXII

### CHINA

ITS ANCIENT CURRENCY—SOME EARLY ATTEMPTS AT CURRENCY REFORM—THE PAPER CURRENCY—THE TAEI AND ITS VARIATIONS—THE "CASH" CURRENCY

CHINA PROPER consists of twenty-one provinces,<sup>1</sup> with an area of 1,532,800; but the total estimated area of the whole of Chinese territory, according to the latest and most reliable estimates, is 4,278,352 square miles, made up as follows—

China Proper . . .	1,532,800	square miles
Manchuria . . .	363,700	" "
Mongolia . . .	1,367,953	" "
Chinese Turkestan . . .	550,579	" "
Tibet . . .	463,320	" "
Total . . .	<u>4,278,352</u>	" "

The population is estimated at 436,094,953; it is but an estimate, as Chinese statistics on the one hand are unreliable, and, on the other, the figures computed by various English and American authorities differ considerably. However, accepting these figures as approximately correct, we get a density of population for the whole of China of 101 to the square mile.

The popular name "China" emanates from the period called the Ts'in dynasty, under which the country became better known to the nations of the West.

"This name underwent various transformations, such as Jin, Chin, Sina, China. The Romans called it *Serica*, or the silk-producing land. In the Middle Ages it

<sup>1</sup> "Until 1907 China Proper comprised 18 Provinces, while Manchuria was governed as a separate Dependency. By the Imperial Decree of 20th April, 1907, the three Manchurian Provinces, Shing King, Kirin, and Heilung Kiang, were combined into a single Viceroyalty, the Viceroyalty of the Three Eastern Provinces."  
—Foot-note to Chapter I, *China Year Book*, 1916.

received the name of Cathay. It is also known as the 'Middle Kingdom' (Chung-Kwoh), this name being applied by the Chinese to the central part of their country; and as the Flowery Kingdom (Hwa-kwoh). The Chinese themselves used to be called Han-jen (men of Han), this being the name of a celebrated dynasty."<sup>1</sup>

China, as our readers are aware, became a republic on 12th February, 1912; but whether this marks the definite passing of the most ancient of monarchies, it is impossible to say: China has ever been the land of paradoxes, and we may yet see a reversion to the old order of things governmental.

### Taxation.

Nominally, Chinese taxation falls under five headings: Land tax, Customs charges, salt tax, taxes on commodities, direct and miscellaneous taxes, which, according to the Budget for 1916, were estimated to yield the following amounts—

	\$	\$
Land Tax . . . . .	95,972,818	
Customs Revenue . . . . .	71,320,970	
Salt Tax . . . . .	84,771,365	
Taxes on Commodities . . . . .	40,271,368	
Direct and Miscellaneous Taxes . . . . .	32,341,704	324,678,225

There has been nothing in the shape of a reliable budget forthcoming from China for some years, but in 1919 the revenue was estimated at \$490,418,000. In the circumstances, there is little use our attempting to give the incidence of taxation, more especially as "squeezing" by the local tax-gatherers, and exactions by the roving military bands in China are prevalent.

To write the history of Chinese currency in a few pages is a difficult task: in fact, to be quite candid, it is an impossibility. The subject abounds with difficulties, and even the great white chiefs of the Eastern banking world

<sup>1</sup> Cf. *Géographie de l'Empire de Chine*, p. 7 (M. Richards, T'uswei Press, Shanghai).

who have spent varying periods—from a quarter to half a century in China—are prone to admit that they have never gained a complete mastery over the intricacies of the currency of this strange people. However, although few of us are budding sinologues, there is no reason why we should not at least make the attempt to fathom some of the mysteries of the monetary system of China.

Perhaps, as a commencement, it will be better to fix in our minds that the present unit of Chinese currency is the tael or Liang. This word "tael" is one of those hybrid terms which frequently crop up in Oriental languages: it is said to be derived from the Hindu word "Tola" and the Malayan word "tihil"; and, in view of this fact, the reader will probably not be surprised to find that a tael is not a coin at all; it is the weight of an ounce of pure silver, the approximate equivalent of which is 583·3 gr. There is, however, no fixity about the tael, which varies not only in name, but in weight and parity of fine silver it represents—and as we shall see later—the number and variety of taels in China is such as to bewilder even the most hardened banker or dealer in money, or in silver.

Historically, of course, Chinese currency dates back a very long way, and those who have investigated the annals of this very ancient nation find many traces of token money. Such things as the skins of animals, pieces of paste-board, of cloth, and of iron, all appear to have been doing money's work in the Celestial Empire. Then we find the well-known cowrie and tortoise-shells, and even silken rolls, all of which were symbols of money from primeval times, circulating down to as late as the fourteenth century. But possibly we are getting along a little too fast!

From ancient Chinese records, which, *en passant*, we might say can claim to be more complete than those of any other nation because the keeping of them has always



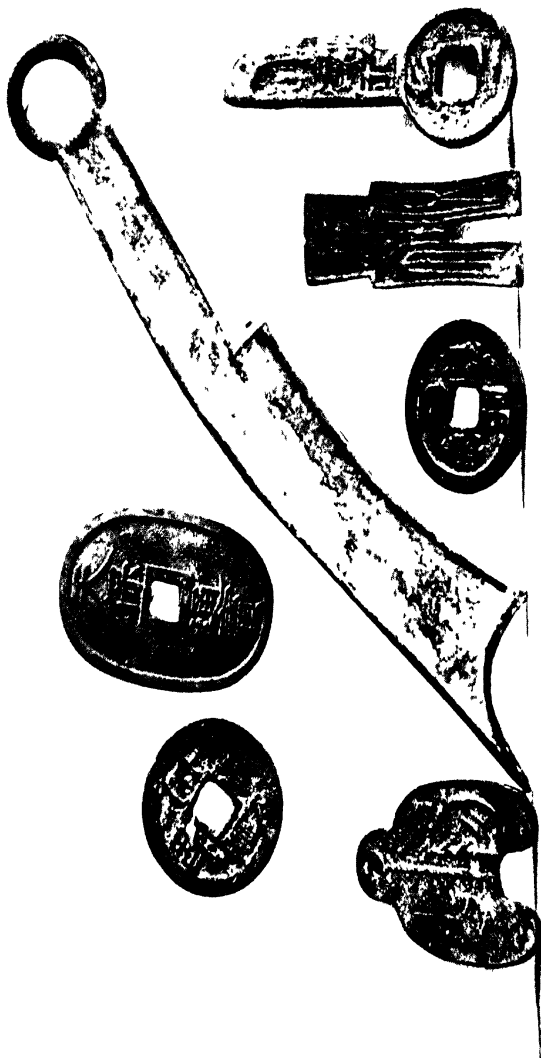
been the concern of the State, it is found that money in the shape of gold, silver, and copper was in circulation in China as far back as the reign of T'ai-hao (2953–2839 B.C.). Traces are also found of an actual circulating medium during the dynasties of Hsia (1990–1558 B.C.) and Shang (1558–1050 B.C.). Writing of these 'periods, a Chinese author mentions a crude method of minting coins as having been in vogue, the so-called coins being the round money, bell-shaped money, and knife-shaped money.<sup>1</sup> But H. B. Morse, in his authoritative work on the *Trade and Administration of China*,<sup>2</sup> seems to incline to the opinion that gold as currency dates only from the eleventh to the third century B.C.; and he mentions a law providing that "the unit of gold in commercial transactions should be a cube of one tsun, weighing one kin." Orientalists, however, seem agreed that a gold money, called "Chin," did exist in 1032 B.C., which would be the Chow dynasty. At this period, and for a good many centuries afterwards, the pieces of money in circulation were symbolic of various articles, utensils, and implements in daily use; and mention may here be made of the Ch'an—spade money; the Tao—knife-shaped money; and the Pu, or bell-shaped money.<sup>3</sup> Specimens of this currency are reproduced in the plate facing this page.

The date at which inscribed coins first made their appearance is doubtful: some writers hazard it as 375 B.C. ! but it is purely a guess; and although the progress and development of Chinese civilisation may be traced by the manner in which the inscriptions on the above-mentioned tokens are given, it is difficult to tell anything more from the better designed "coins" than the place of issue. This token money circulated up to about the third century B.C., at which time gold, pearls, and precious stones formed what might be called the upper grades of currency.

<sup>1</sup> Cf. *Chinese Currency and Banking*, p. 36 (Srinivas R. Wagel).

<sup>2</sup> Cf. *Trade and Administration of China*, p. 117.

<sup>3</sup> Cf. S. R. Wagel, *Chinese Currency*, p. 36.



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PRIMITIVE CHINESE CURRENCY

Sword Cash. Pu Cash. Spade Cash. Knife Money. Half tael Cash.



In these days when we hear so much about the reform of Chinese currency, it is not without interest to find a native writer giving an actual instance of an attempt on the part of a Prince of the Royal Blood to straighten out the disordered monetary system. He says—<sup>1</sup>

“At about the close of the third century B.C., important political changes took place, and the Prince of Ch'in unified the country by gradually subduing all the rival principalities; he extended the circulation of the round money by prohibiting the use of cowrie shells, pearls, gems, and precious stones as currency. The units of the gold coin were the Yi, twenty taels in weight, and the Chin, sixteen taels in weight; these were used as currency quite extensively. Further, the lower grade or common currency consisted of the round money, Pan Liang, half a tael in weight. During the Han dynasty there was a slight change in the weight of the gold unit. But the most notable event was the adoption of the copper cash, about one-fifth of a tael in weight as the standard.”

Now, this small paragraph is replete with information, and we may pause for a moment to examine a few details. The Prince of Ch'in seems to have been seized with a laudable desire to stabilise the currency of his kingdom. The round money mentioned appears to have been made of copper, and bore inscriptions regarding weight, place of issue, and the number of “kin or hoes they stood token for.”<sup>2</sup> The earliest specimens were, it appears, pierced with a round hole; but, in later years, the Chinese altered their ideas and punched a square hole through the centre of the coins. Morse, in his chapter on “Chinese Currency,” gives the date of the round coins with round holes as 660–336 B.C., and those with the square holes from 221 B.C.<sup>3</sup>

<sup>1</sup> Cf. S. R. Wagel, *Chinese Currency*, p. 36.

<sup>2</sup> *Trade and Administration of China*, p. 119 (H. B. Morse).

<sup>3</sup> *Ibid.*

Gold, in the modern sense of the word, has never been coined in China: at the present time it is merely a commodity, largely in the form of gold leaf, but frequently seen in small 10-ounce bars, which, owing to their convenient size and shape, are in favour with the Chinese. Many of these gold bars are in all probability hoarded; others find their way into the hands of the natives, whose province it is to manufacture them into gold leaf and jewellery, which are then sold and, in their turn, are also hoarded.

The "cash" to which reference was made did not long remain at one-fifth of a tael weight: frequent alterations were made, and successive emperors favoured first one type of coin, then another. Many of them exist down to the present day, and the large one in the illustration facing this page was introduced by the Emperor Wang Mang. This particular coin weighs approximately half a tael.

Another standardisation of the currency was attempted during the Tang dynasty, and as the result of the efforts of one Wu-te, who reigned A.D. 620, coins were issued weighing one-tenth of a tael, of a diameter of eight-tenths of an inch: 1,000 of these were the equivalent of 6 catties and 4 taels. Most of the coins of the Tang dynasty were of such simple design that counterfeiting was an easy matter, and great numbers of spurious pieces soon found their way into circulation.

So matters went on, century in and century out; successive governments were continually falling on bad and troublous times; and, however honest a reigning monarch tried to be, he soon found himself obliged to follow in the wake of his predecessors and to issue depreciated money. Copper became scarce, illicit coins continued to circulate; and, although it is a big jump from some of the dynasties we have mentioned down to recent years, a perusal of the history of the intervening period is simply the same old story over and over again; and, however interesting the study might be to the numismatologist, we must take the



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# ANCIENT CHINESE AND SIAMESE CURRENCY

- (1) Large Cash
- (2) Small Shoe of Chinese Sycee Silver.
- (3) Large Cash
- (4) Lao Tical—Siam.



details as read, and take up the thread of our narrative at a comparatively recent period—that of the Hienfeng reign (A.D. 1851–1861).

In this reign we find the Government issuing large supplies of iron money, somewhat in the same way as the Germans have done in the present century to tide over their currency difficulties during the Great War. These iron coins of the Chinese were practically facsimiles of the copper coins: their face value was the same, and there was little difference in the size of the two classes of token money. A certain proportion of copper currency was also issued, all in multiples of the ordinary “cash,” just by way of leavening the lump, so to speak, of the iron tokens. The circulation of iron coins did not last for more than three or four years; the populace suddenly took a dislike to them, and it is said that they were driven out of circulation in a single day.

At this point, without going into all the whys and wherefores of Chinese currency in these olden times, it is incumbent upon us to explain what “cash” really is.

The term “cash” is derived from the “Sanskrit Kārsha, Kārshāpana, the translation in English of the Chinese ‘Copper Coin.’”<sup>1</sup> (Monsieur Richard gives it as: *vulgo*, Ts’ien).<sup>2</sup> The cash (so-called) is a flat, oval coin, with a square hole in the centre for the purpose of stringing large quantities of them together. Cash are found to be of copper, bronze, or even brass; but many of them are composed of alloy of copper, somewhat in the following proportions: Copper, 50; zinc, 41½; lead, 6½; and tin, 2 parts. Others are of equal parts of copper and zinc. Several authorities say that the cash should weigh 58 gr. troy, or 3.78 grammes; most of those in circulation, however, do not weigh more than about 30 gr. troy. They are mostly stamped with Chinese characters, giving the name of one or other of the various emperors who have reigned from

<sup>1</sup> H. B. Morse, foot-note to p. 126, *Trade and Administration of China*.

<sup>2</sup> *Géographie de l'Empire de Chine*, p. 316.



time to time in China. In many places in China they are carried about in strings of 500 or even 1,000 cash, so tied that there is a knot at each 100 coins in order to facilitate calculation.

Cash undoubtedly is the most important, if not the only domestic currency in China. It is used for all retail transactions: the wages of labour are nearly always paid in it; in fact, all the ordinary transactions of life in China are conducted through the medium of "cash." The infinitesimal fractions into which it is divided are almost unknown to European exchanges; and, as in most places in the interior of China, both large and small cash of the various epochs are in circulation—some debased, some containing more copper than others, and some spurious—the chaos and confusion caused is indescribable. The writer has before him a cutting from a China newspaper,<sup>1</sup> which gives some of the experiences of a traveller in the North-West of China; and as the opinion of a man on the spot is frequently more useful than that of a mere research student, a paraphrase of what this traveller actually said is here given.

Although cash are of various sizes and weight (he remarked), those in modern use are all of one value, with the exception of the very small and thin counterfeit coins, which have whatever worth is assigned to them locally. Nominally a cent or a "copper" is worth 10 cash, and a dollar 1,000 cash; but, in practice, there is no certainty in the matter. A dollar may be worth 1,400 cash—each 100 cash consisting of eighty only, and each eighty consisting of 60 large cash and 20 small cash. At the same time, the copper may be worth anything from 8 to 11 cash; the dollar may be worth from seventy to seventy-five hundredths of a tael of silver, which latter may be from 90–100 per cent. pure metal. The relative values are subject to alteration upon the shortest notice: they are also regulated arbitrarily from time to time by the Chinese

<sup>1</sup> *North China Herald*, 19th Aug., 1916, Rodney Gilbert.

local officials, who are always ready to speculate in the cash market. In such circumstances, one may conceive the confusion which exists. It does not at all follow that the Chinese are discontented with their system: they will cheerfully spend any amount of time and take endless trouble in working out the intricacies involved in payments. If a man comes into a shop one day when 93 cash constitute a hundred, and of these 93 cash 70 per cent. should consist of large cash and 30 per cent. small cash, and he makes a 29 cash purchase, he will readily spend an hour or so arguing with the shopkeeper as to what 70 per cent. of 93 per cent. of 29 is; and since the Chinese have no actual system of reckoning on paper, it must all be calculated with the ubiquitous *suan pan*, or "abacus."

Is there any wonder, then, seeing that a hundred cash are not a hundred, and a thousand cash not a thousand, that the Chinese say that if you take any given sum on the street and convert and re-convert it ten times, you will have nothing left, even if you start with a million.

Authorities differ as to the precise date at which copper first made its appearance: some definitely assert that its origin can be traced back to the emperors of the Ts'in dynasty, that is, 246 years B.C.; while others state that it can only be traced back about eight centuries before Christ. The probability is that the confusion arises from the fact that inscribed round coins, punctured with a square hole, which made them resemble cash, were issued somewhere about the eighth century; whereas forms of cash were known to be in existence very many years earlier.

However, the Chinese Government Bureau of Economic Information state that copper cash in the shape of small coins first appeared in the reign of Kai Yuan (A.D. 713-733) of the T'ang dynasty. At the commencement of the Manchu dynasty there were two Government Mints in Peking, the Pao Chwan and the Pao Yuan. The establishment of provincial mints was authorised at a later date. In the reign of Shun Chih (A.D. 1644-1661) the

standard weight of a cash was 1 mace, or one-tenth of a Chinese ounce. At later periods it was changed to 1·2 mace, 1·143 mace, 1·25 mace and 1·4 mace. Smaller cash of one candareen, (one-tenth of a mace), each 1,000 of which were equal to 1 tael of silver, were also coined, but do not appear to have circulated largely. At the commencement of the reign of Kang Hsi (A.D. 1662), when the market was flooded with copper cash, the provincial mints were ordered to stop coining and the smaller cash, weighing one candareen, were redeemed and 1 mace cash substituted.

Later, as a precaution against counterfeiting, the standard weight of 1·4 mace was re-adopted. One thousand of these coins were equal in value to 1 tael of silver, while the same number of old coins of 1 mace each was exchanged for only ·7 tael of silver. In the reign of Yung Cheng (A.D. 1723-1834) the cash coined contained 50 per cent. copper and 50 per cent. lead, but the exchange rate of the new cash remained the same. Later, the standard weight was again altered to 1·2 mace and remained so during the reign of Kien Lung (A.D. 1736-1794.). During the Hsien Feng era, 1851-61, the standard weight was again reduced to ·8 mace, and later on large cash were issued from the Government Mints to be used for soldiers' pay. These larger coins were of 10 cash, 50 cash, 100 cash, 500 cash and 1,000 cash pieces. Only a small number of the 50 cash and 100 cash pieces were circulated and none of the 1,000 cash pieces appears to have been in circulation at all. In 1875, during the reign of Kwang Hsu the standard weight of the cash was again reduced to ·6 mace and still later to ·32 mace.

There were curious customs in regard to this copper cash. The customs, or "ch'ia chien" was the exchange rate used by the native customs of former days in receipts and disbursements. It was fixed by the customs houses and was not the same as the current rate in the market.

The market rate, or "shih chien" was the current rate

in the market for silver in taels, while "i pai" was an expression for the exchange rate for silver dollars.

The sauce dealers' rate or "chiang pai" was the exchange rate for silver dollars used by sauce dealers in their peculiar business practices.

The balance rate, or "chien chao tow" was the rate used by exchange dealers in making their own accounts balance.

The "Hsi tien" was the rate for silver during the time of the Emperor Kang Hsi. Other rates, the "chiu pa" and the "chu chu'an" were also in use. The "chiu pa" or ninety-eight meant a reduction of 2 cash in every string of 100 cash to be exchanged; that is to say, the rate was for a guarantee of 98 cash in a string. The "chu chu'an" or full string, meant the exchange rate for a full string of cash.

The one-copper cent coins of Kwangtung, minted in 1900, were widely circulated and were not counterfeited easily. In the following year other provinces were ordered to make similar coins. One copper equalled 10 cash, and 100 copper coins were exchangeable for \$1. Among the provincial mints, the Hunan-Hupeh, the Kwangtung-Kwangsi, and the Szechwan mints have turned out the most copper coins. In the last few years of the reign of Kwang Hsu the monthly output from each of these mints was several million pieces. Thus copper coins have been widely circulated since 1900, and they have, in many localities, taken the place of the former money unit, the cash.

There are places in China in which the cash is reckoned in still a more curious manner than that to which we have already referred. In the North (Chihli, Shantung), one cash counts for two, so that in buying an article worth, say, 100 cash, the buyer need only give 50 cash, "at two tiao, one gives what in the South constitutes one tiao."<sup>1</sup> The same rule of deduction holds here too, and the tiao,

<sup>1</sup> A "tiao" is a string.

nominally of 1,000, and nominally-actually of 980 cash, contains actually 490 coins. At Peking, too, the rule holds good, and the tiao, nominally of 1,000 cash, i.e. nominally of 100 and nominally-actually of 98 pieces of 10 cash, actually contains 49 pieces of 10 cash = 20 cash. In Manchuria, the tiao consists of 160 ordinary (small) cash."<sup>1</sup> That is what an American writer finds; and a similar account comes from the Chinese author (S. R. Wagel), who writes: "The cash currency is reckoned in the terms of tiao of nominally a thousand coins. But, in practice, the tiao is only 490 coins in Tientsin, 160-163 in and near Lanchow, 620 in Yunnan city, and 980 in the Province."<sup>2</sup>

The cent coins, to which reference has been made from time to time, were issued to fill a gap in the existing currency. The Chinese have always been accustomed to deface, melt, or destroy the minted currency of the country without let or hindrance. The natives treat any and all of the coins as ordinary merchandise, and generally break them up and cast them into the melting-pot without the slightest intervention on the part of their Government. Now and again the Chinese authorities have been known to interfere, but the matter has usually ended with threatening, and in a few cases carrying out, dire penalties. Such sporadic attempts at improvement do not last long, and the powers that be very soon lapse into their natural apathy. Well, to return to these cent pieces: some were issued from the Mint at Canton, and bear the inscription "100 to a dollar"; others, which have been coined from time to time by various Provincial mints, bear words indicating that they represent "10 cash." Some of them are of copper, others contain 5 per cent. of alloy. Brass cents are also known to have been issued, and these contained 80 parts copper to 20 parts spelter.<sup>3</sup>

<sup>1</sup> *Trade and Administration of China* (H. B. Morse), p. 131.

<sup>2</sup> *Chinese Currency and Banking*, p. 42.

<sup>3</sup> Cf. *Trade and Administration of China* (H. B. Morse).

The only other metal doing money's work in China is silver; but, before dealing with this, it will be convenient to run through the past history of paper currency, and here we get into a very interesting stage of Chinese finance.

The documents in the Chinese State archives, as is well known, go back almost to prehistoric times; and for a translation of some of the ancient records concerning this particularly curious phase of Chinese currency, the world is indebted to the researches of a learned French-Orientalist named Klaproth, whose works were better known in the early part of the nineteenth century than they are to-day.<sup>1</sup>

The Chinese system of paper currency—bad and unsatisfactory as it is—is of great antiquity, and appears to have been in full operation at a far earlier period than that of other nations. According to the translator above-mentioned, the earliest trace of a currency having a nominal instead of a real value, is to be found in the annals of the reign of the Chinese Emperor Ou-ti, in the year 119 before the Christian era. It appears that the treasury of that Sovereign got into so low a condition, that the expenses of the State exceeded its revenues. He was fortunate, however, in having the services of a Finance Minister, through whose genius was planned and put into execution a system of nominal currency. This consisted of pieces of deer skin, about a foot square, ornamented with paintings and highly-wrought borders. These represented a value of 40,000 deniers (£12), but were only current amongst the grandees and at Court. Out of them a revenue was collected in a manner characteristic of the people—every person who was admitted into the presence of the “Sun of Heaven” covered his face with a screen, or small tablet, as he was supposed to be quite unable to bear the blazing light of the emperor's countenance; and, at the time

<sup>1</sup> Cf. “Sur l'Origine du Papier Monnaie,” *Mémoires Relatifs à l'Asie* (M. J. Klaproth), Vol. II, p. 375.

referred to, whoever was honoured with an invitation to the emperor's repasts and entertainments, was obliged to cover his screen with one of these phi-pi, or "value in skins," which he was condescendingly allowed to leave behind him.

This plan, once set on foot, appears to have been followed in subsequent years.

Klaproth is not the only historian to mention the early currency; we read elsewhere that a Chinaman, Ma Tuan Lin, stated that skin money, which rarely circulated beyond a few Court nobles, was current in the reign of Wu Ti (of the Han dynasty). It consisted of pieces of white stag skin with embroidered hems, measuring one square foot, and of a value of 400,000 (units unknown). Skin currency is said to have been in existence in China until about the year A.D. 1200.<sup>1</sup>

Between the years 605-617, disorder was prevalent in China to such an extent, that the country was nearly denuded of coinage, and all sorts of things were used as money: such as round pieces of iron, clothes cut up, and even pieces of paste-board. It is not, however, till nearly three centuries later, that the history of regular paper money commences. Hian-tsoung, of the Thang (or Tang) dynasty, whose reign commenced A.D. 807, was the founder of banks of deposit and issue, for he obliged rich families and merchants who arrived in the capital to deposit their valuables and goods in the public treasuries, for which paper receipts or acknowledgments were given and made current under the name of "fey-thsian," or "voluntary money." This voluntary money is apparently the same as that which H. B. Morse describes as "bonds," or "flying money"; he goes further than the French author and says that the notes represented different provinces and were redeemable at the proper provincial capital.<sup>2</sup> An ancient Chinese historian is also reported to have said

<sup>1</sup> Cf. S. R. Wagel on *Chinese Currency and Banking*, p. 64.

<sup>2</sup> Cf. *Trade and Administration of China*, p. 132.

that the origin of the term "flying money" came from certain old Chinese merchants or travellers who were enabled to carry on trade relations in distant places with light "equipment," and used this currency, which thus came to be known as the "flying money."<sup>1</sup> Whether the equipment meant the money, however, is not clear. Other writers have termed the "flying money" bills of exchange or commercial paper.

Thai-tson, the first emperor of the Sung dynasty, who reigned in 960, adopted the same or a similar plan, and issued notes against the deposit of money or merchandise, redeemable in cash at Government treasuries in provincial centres other than those in which the notes were issued. These notes introduced by Thai-tson were termed "pien-ch'ien," which, being interpreted, is "convenient money"; and, according to Ma Tuan-lin, their circulation at "any period during the early years of the Sung dynasty never exceeded 2,830,000 Kuan—the kuan being nominally worth 1,000 cash."<sup>2</sup>

Klaproth found that a paper money system was established in the State of Shuh, now known as the Szechuan Province of China, between the years 997 and 1022, such as is at present followed in Europe—"that is to say, the issue of credit papers as currency without being guaranteed by any substantial pledge or mortgage whatever." These primitive bank notes were called tchi-tsi, or "coupons." They were introduced in the reign of Cheng-Tsung of the Sung dynasty, and are evidently the same as those which Morse describes as Kiao-tze or "changelings."<sup>3</sup>

From that time to the present, bank notes have been in use in China under various names. It would take many pages to detail them satisfactorily, but to mention only a few of the series, there were: the Ch'ao notes, issued by the Chin Tartars, and subsequently repudiated under the

<sup>1</sup> Cf. *Chinese Currency and Banking*, p. 63 (S. R. Wagel).

<sup>2</sup> *Ibid.*, p. 64.

<sup>3</sup> Cf. his chapter on "Chinese Currency," p. 133, in *Trade and Administration of China*.



Mongol *régime* (1279); and replaced by Mongol paper, called Pao Ch'ao of Kublai Khan, of Chih Yuan, and of Chih-Ta—the last of which appears to have been issued in A.D. 1310. Then we get the notes of the next period, the Ming dynasty; and this paper, known as Min-Ch'ao, was put into circulation about the year 1367.

De Guignes, in his work on China, gives an engraving of a Chinese bank note. It is a square paper, having on one side an inscription stating the amount of the note (1,000 deniers, or cash), and that it is a note of the emperor Zong-King, of the Ming dynasty. On the other side, the Chinese equivalent of the following sentence is printed: "At the petition of the Treasury Board, it is ordained that the paper money thus marked with the Seal of the Imperial dynasty of the Mings, shall have currency, and be used in all respects as if it were copper money. Whoever disobeys will be beheaded!"<sup>1</sup>

The notes current in Klaproth's time were called "pao-tchhao" or "precious paper money," and were issued during the troublous times of the Manchus (1644–1911). The Manchus seem to have been moved alternately to favour the suppression and re-introduction of paper money: at one period both Government and people were at one in acknowledging the evils of paper money; at another, we find them advocating the return of note issues. For a while, indeed, it appeared to be likely that the Government issues at least would fall into desuetude, but all good resolutions—if there were any—were broken soon after the Taiping rebellion; and in 1853, under the reign of Kien-feng, we witness the Chinese Government again committed to an issue of paper currency in the shape of notes for 1, 3, 5, 10, and 50 taels (silver), and 500, 1,000, 1,500, and 2,000 cash (copper). These notes were forced into circulation, and were practically irredeemable, for all authorities were agreed that no attempt was ever made to redeem them. In the circumstances, it is not surprising

<sup>1</sup> Cf. *Chambers's Journal*, Vol. I, 1844, p. 298.



A CHINESE BANK NOTE

that in the course of three or four years they were almost worthless—they were circulating in 1861 at 3 per cent. of their face value. Even then the Chinese Government made not the slightest attempt to redeem this discredited paper, and before very long the whole of the notes disappeared from circulation.

For a time the Government washed its hands of paper currency, and issues were left to the tender mercies of the native Chinese bankers and money-changers; but, of recent years, an impoverished exchequer has led the Chinese Government again to attempt the re-introduction of paper currency. First, the issues were in the hands of the Provincial Governments; then all sorts of private banks, money-changers, and quasi-Government banking institutions set the printing press in action; and by the time the Revolution broke out, the Central Government itself had begun again to countenance paper money. The note of which we produce a replica was issued by a "Cash" shop at Wuchang, near Hankow, about the year 1897. At the moment its worth is 1,000 cash, less 12 per cent.; that is to say, the value to a holder in China would be 880 cash.

The position is well described in the *China Year Book* for 1916, which says—

"Bank notes are issued by numerous native banks and Provincial Governments, and add to the financial chaos, inasmuch as these issues are not always restricted by considerations of adequate reserves for redemption."

That certainly was the position during the first year or so of the new Chinese Republic: both the Central and Provincial Government issued notes alongside the banks, and, added to this, the Republican Government found itself face to face with the serious state of affairs caused by the enormous paper issues which had been put into circulation during the Revolution; the military authorities, left to themselves, flooded the country with large quantities of military notes, which, on the return to more peaceful

times, fell into such bad odour and depreciated to such an extent that the Government were obliged to take immediate steps to redeem them.

The *China Year Book* gives a return made in 1915 of the amount of paper money in circulation, totalling \$172,000,000. This return, however, seems to include notes which were known to have been circulating in 1913-14, as, practically from the beginning of 1914, steps—somewhat halting perhaps—were taken for the gradual redemption of large masses of paper in existence.

Most of the note issues showed heavy depreciation, and the discount on their face value varied from 10 to 44 per cent. Apart from the depreciation arising out of the indiscriminate issues by the military authorities, there is little doubt that a large number of notes were issued and passed into circulation without adequate records or registers of the numbers, amounts, and other necessary details being kept; then, during the Revolution, quantities of the notes were stolen and, as all were circulating, no one really knew which were the genuine notes and which were—well, how shall we describe them?—the unrecorded notes.

The paper currency circulating in the Kwantung Province was returned at \$32,000,000: it had depreciated by no less than 40 per cent., so that its market value was only \$19,200,000, and it was to this particular Province the Government first turned its attention in the scheme for redemption. The reason they started with this Province was because of the great importance of Canton as the trade centre of South China: the paper currency of the inland provinces was not a matter of such extreme urgency; but Canton, owing to its foreign trade connections, called for immediate measures.

The redemption of the depreciated Kwantung notes commenced in July, 1914, and was under the joint control of foreign and Chinese officials. The authentic records showed that the notes on the next page had been issued by the Kwantung Provincial Government.

\$1,000,000	.	.	.	50	cent	notes
6,990,000	.	.	.	1	dollar	notes
2,000,000	.	.	.	2	"	"
13,050,000	.	.	.	5	"	"
10,000,000	.	.	.	10	"	"
<hr/>						
\$33,040,000						

°

The notes handed in for redemption and cancelled at the fixed rate of .455 during July, 1914, were—

\$926,927	.	.	.	50	cent	notes
6,595,783	.	.	.	1	dollar	"
1,912,424	.	.	.	2	"	"
12,308,520	.	.	.	5	"	"
9,901,850	.	.	.	10	"	"
<hr/>						
\$31,645,504						

In all note issues, a certain number in course of time get lost, destroyed, and otherwise disappear: so, allowing for such a proportion, the redemption of the Canton notes may be reckoned as quite a successful undertaking. The notes, as we have said, were redeemed at the rate of .455: .455 of \$31,645,504 = \$14,398,710, which was the actual face value of Bank of China notes which were issued in exchange for the Canton paper. The notes were in one denomination—\$5—and were convertible into silver. The silver reserve against this issue of Bank of China notes, £1,000,000, was derived from funds allocated by the Chinese Salt Administration; it was converted into dollars and deposited in the Bank of China, Canton. Later on, the reserve was increased by \$2,500,000, making a total silver reserve of \$13,019,047.

The military notes in other provinces were subsequently called in, and the work of redeeming the various other depreciated issues has been taken in hand by the Chinese Government. How far they will continue, or succeed, in their efforts remains to be seen.

In the meantime we still get occasional bursts of note-issuing activity on the part of the "Cash Shops." The

various Provincial Governments seem powerless or unwilling to stop them; and as long as this state of affairs continues, or that peculiarly credulous and trusting section of the Chinese public accepts such currency tokens, we shall still meet with these examples of the printer's art. However, for pure impudence, an issue, of which the facsimile facing this page is a specimen, is hard to beat. It is a Cash Shop note for 1 copper cent, the equivalent of 10 Chinese cash, say, one-fifth of a penny! Early in 1917 these notes were found in circulation all over the Hunan Province of China, and the natives accepted them in preference to the Hunan Government Bank Notes. The specimens from which our illustration was taken came from Yochow, where it must be admitted the local authorities made powerful efforts to eliminate this form of currency, and, as the notes are now very scarce, their efforts would appear to have met with a good measure of success. Still, this example does go to show to what lengths people will go when allowed to manufacture currency without let or hindrance from the Government.

Most of the European exchange banks, having branches in China, are at liberty to issue bank notes for taels or dollars, as the case may be; and most of their notes are to be found circulating in the principal ports and towns. In their case, the issues are restricted by their own statutes of incorporation, etc., and are fully protected by reserves which they are forced to maintain in accordance with the terms imposed upon them by their own Governments,



FIGURE 1

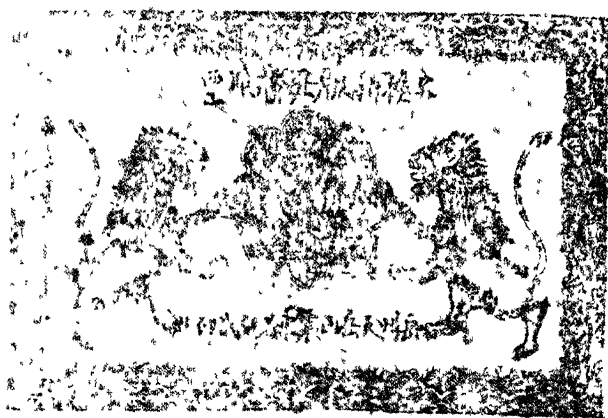


FIGURE 2

CHINESE CASH NOTE FOR ONE COPPER CENT - 10 CHINESE CASH - ONE FIFTH OF A PENNY

## CHAPTER XXIII

### The Silver Currency of China

THE DOLLAR CURRENCY: THE PRACTICE OF "CHOPPING"  
COINS—CURRENCY VARIATIONS IN THE PROVINCES—THE  
SPANISH DOLLAR AS THE UNIT IN AMOY—THE TAELES  
IN USE—THE NEWCHWANG TRANSFER SYSTEM—SHOE  
CURRENCY—SYCEE

It might have been considered that we had written all there was to be written concerning silver currency in our chapter "On Silver"; but, as it happens, we there only barely crossed the threshold of the Chinese silver problem.

The maintenance of anything approaching a satisfactory silver currency has been rendered all but impossible by the absence of control over the circulating medium. The most startling anachronism of the day is the way the Chinese are allowed to tamper with the currency of the country: it is an ordinary commercial operation for a dealer or money-changer, or anyone else for that matter, to break up, to deface, or to melt any portion of the currency which falls into his hands. Up to the present, such an action is not an indictable offence in China. It would not be so bad if this tinkering and tampering with the money circulating were confined to foreign coins; but, as we have seen, the Chinese constantly "chop" and frequently break any silver coin or dollar which comes into their possession; and there is little doubt that this unchecked trifling with the currency is one of the principal reasons why China is unable to maintain a successful silver currency.

Let us run over a few of the historical facts concerning their experiences with silver.

The Chinese are faddists in their preference for silver dollars: still, we must admit that the commercial sense

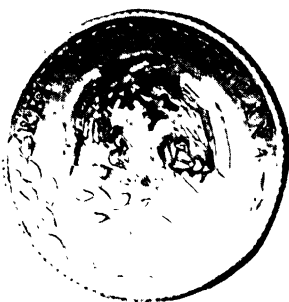


stands out quite prominently in their faddism, since it is generally the dollar with the most or the purest silver in it which takes their fancy. Nevertheless, the common practice of chopping the coins as a guarantee of their purity soon takes away from them whatever advantages they may possess over other silver currency.

Dollars, we know, were introduced into China by the Spaniards from the Philippines;<sup>1</sup> these were the old pillar dollars issued in the reigns of Charles III and Charles IV of Spain. Of those in the photograph, one bears the date 1787—"Carolus III," and the other 1805—"Carolus IIII." Later, when trade was opened between India and China, the old East India Company found itself under the necessity of sending these dollars to China in payment for purchases of silk, tea, etc., so great had the popularity of the coin become. The fact that Canton was the only port open to foreign commerce for upwards of a century from 1757 also favoured the introduction of the coin. Then, during the Napoleonic Wars, about 75 per cent. of the foreign trade of China was paid for in dollars of the Carolus type. Not that the higher Chinese were by any means in favour of this circulation of the Spanish dollar, for, as Wagel<sup>2</sup> remarks, "the officials in the country were chary of the popularity of anything foreign, and they took steps to stop the inflow of foreign dollars." He mentions a point, too, which we do not recollect having seen recorded elsewhere, and that is that at the close of the eighteenth century the officials ordered the Chinese silversmiths to make dollars similar to the imported coins. However, "apart from the fact that the workmanship in the coins was not quite as good as that of those imported, the silversmiths began to use a large proportion of alloy in order to make as much profit as possible. It is stated that in some of the coins there were five parts of alloy to eight of silver. The inevitable result was that the coins depreciated

<sup>1</sup> *Infra*, p. 304.

<sup>2</sup> *Op. cit.*, p. 51 *et seq.*



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# DOLLARS CIRCULATING IN CHINA

(Starting from top—left to right)

- (1) Carolus Dollar—1787.
- (2) Carolus Dollar (Reverse)—1805.
- (3) and (4) Mexican Dollars, showing “ chops ” or  
seals of money-changers.

heavily, and the Government had to stop private coinage. Further, all sorts of tricks were tried in order to delude the public; and business men were obliged to draw a line between the proper dollar and the imitation dollar; one of the steps taken was to 'chop' the dollar with an impressed ideogram in order to give a guarantee of genuineness."

The issue of debased imitations naturally tended to enhance the popularity of the Carolus dollars, which, as time went on, commanded a high premium—about 30 per cent. above their face value—and the coins for many years remained in undisputed possession of the Chinese currency market, if we may use such a term. Their reign came to an end, however, about 1854, when a formidable competitor entered the field in the shape of the Mexican dollar, or eagle dollar as it was sometimes called by the Chinese. The reason for the latter title will be apparent if the reader will glance at the specimen in our illustration facing page 404, which shows an eagle grasping what appears to be a cactus in its talons and holding a snake in its beak. Since that period many other dollars have been sent to China from South America, the United States, and elsewhere; but none has been able to displace the highly popular Mexican dollars, which even now are to be found all over China. Even the old Spanish Carolus dollar has not entirely disappeared; and a writer in the *North China Herald*<sup>1</sup> mentions the coin as still to be seen in certain parts of Anhui, where, although it is worth less than other silver dollars, it is still treasured.

It takes a good deal to dismay the Chinese, yet they do not seem to have made any very serious attempt to mint a coin which could compete with the Carolus or the Mexican dollars, and the silver money they did manufacture in the early days was relatively unimportant. Morse<sup>2</sup> mentions having found references to old types of silver currency; but, as he says, these were insignificant exceptions, and

<sup>1</sup> Cf. *North China Herald*, August, 1916.

<sup>2</sup> *Op. cit.*, 143-4.

in one case the silver coinage came to an end in three years, while in another the silver piece issued could only be regarded as a mint sport.

Early in the nineteenth century we do find records of an endeavour to coin a silver coin for circulation in the Province of Fukhien. A silver piece was issued by the Provincial Treasury, and was said to weigh 517 gr. troy. On the obverse it had the figure of the God of Longevity, "and a legend stating it to have been cast in the reign of Taukwang, a 'cake of pure silver weighing 7 mace 2 candareens.'"<sup>1</sup>

When we get down to more recent times, we find the Chinese becoming convinced of the utility of a standard monetary unit; and although they rarely appear to have thought out any intelligible or useful scheme for putting their currency on a sounder basis, they have so far absorbed Western ideas as to desire to possess mints in which to manufacture their own coins. The first opened was the Canton Mint; it took the Chinese a good many years to think about it and a good many months to get it into working order. The scheme for this Mint was mooted and finally agreed on in 1887, but the building was not actually equipped and opened until the year 1890. The authorities commenced by coining a dollar which was to oust the Mexican dollar from its privileged position, but they were disappointed in the reception accorded to their dollar, for the coin was simply regarded as a commodity, that is to say, people took it by weight and not by count; and the Government seemingly soon tired of trying to compete with the Mexican dollar, which still retained its hold on the Chinese. They then turned their attention to the minting of silver subsidiary coins in denominations of 5 cents, 10 cents, 20 cents, and 50 cents—none of them under 800 fine. These subsidiary coins are of good design, and certainly those which the writer has examined are of excellent manufacture.

<sup>1</sup> *The Middle Kingdom* (S. Wells Williams), Vol. II, p. 156.

The Canton authorities having found minting a paying business, other Provinces soon followed their lead; and, of recent years, quite a number have been set up, and have coined silver pieces of varying degrees of weight and fineness. The principal places at which these provincial mints have been opened are: Tientsin, Hupeh, Nanking, Peiyang Arsenal (Tientsin), Wuchang, and Kirin. Some of the dollars and coins they turn out are quite good; others—well, not so good: some of them are not liked—the Szechuan and Kirin dollars, for instance, are reported to be consistently refused in most parts of China; the Peiyang or Tientsin dollar is current in Honan; while, curiously enough, Tientsin itself prefers the Hong-Kong dollar. In Swatow, Foochow, and Amoy we get the dollar currency—more or less. Sometimes the dollars are at a premium, sometimes at a discount, which arises from two causes; first, from the intrinsic differences between the coins. In Foochow, a good deal of the currency is made up of chopped dollars, which are sometimes beaten out of all semblance to a coin by the steel chops of the money-changers, which extract a minute portion of metal with every “chop,” and, as we have mentioned elsewhere, occasionally there is merely a ring of the dollar left. When one gets to Shanghai, the position is entirely different: there the dollar is no longer current in the strict sense of the word—it acts as a kind of joint currency with what is known as the sycee silver of the Chinese. In Wei-hai-wei, Chefoo, Tientsin, and Peking there are further variations. In Tientsin, one finds, as we have said, the Hong-Kong dollar (also termed the “British” dollar), the Mexican dollar, and the Pei-yang dollar, and there are to contend with slight differences in weight and slight differences in public sentiment, with the consequence that at one time we have one dollar, at another time another dollar—at a premium as compared with the others, and the purchasing power is thus temporarily greater. The dollars, however, merely circulate in

Tientsin for retail payments or for use of foreigners for transactions in shops. In Shanghai, Mexican dollars have quite a fictitious value, due to the fact that the silk merchants in the port and the neighbourhood have been accustomed to them for ages, and they will at times willingly pay a premium of 2 or 3 per cent., or more, for them. For a really curious local currency system, however, that in force in Amoy would be difficult to beat; so curious is it, in fact, that one of the Commissioners of Customs made a special note of it in his report to the Chinese Imperial Maritime Customs on the Trade of Amoy in 1913. He said—

“ One of the features of the trade of this port which has been a puzzle to many, and does not seem to have been yet specially treated of in any previous Trade Report, is that regarding the local currency. The unit of this currency is the so-called ‘ Spanish dollar,’ which, though actually in use in the sixties, had totally disappeared from the market by the end of the seventies. Since then, however, it has been retained as a book-unit by the local agency of the Hongkong and Shanghai Bank, and made to rule practically all commercial and banking transactions of the port. The rate of this unit with regard to the silver currency actually handled here—styled ‘ chopped yen,’ and consisting variously of Japanese yen (coined for Formosa), Hong-Kong dollars, Mexican dollars, and Indo-China piastres, all considered, *mirabile dictu*, to be mutually equivalent in value—is fixed from day to day by the aforesaid bank. It varies generally from about 2 per cent. premium to par, but may even go below par in times when local silver coins are scarce, as in 1911, when it actually touched  $3\frac{1}{2}$  per cent. discount. The sole criterion for this fluctuation is the bank’s want or superfluity of silver dollars, which is practically synonymous with the port’s demand or supply of coined currency. Some other banks established in more recent years—the Bank of Taiwan and

the Chinese official Bank of Communications—have local silver currency—yen or dollars—as their unit; but this has not affected the paramount position of the Spanish dollar as the basis of trade and foreign exchange transactions at Amoy. From a currency point of view, the position is a most remarkable one, as the only legal tender for daily purposes consists practically of cheques on one bank or silver coins at rates fluctuating daily at the will of that same bank. Though, in theory, the Spanish dollar is represented by 72 candareens Canton weight of current dollars or silver of 900 fineness, in practice, sycee is not obtainable; and the bank reserves the right to refuse the acceptance of dollars by weight, taking them by count only, with the interposition of its daily rate to arrive at Spanish dollars. Needless to say, this rate also varies for buying and selling. The system of handling dollars by count only has become the rule, since the bank's policy of accepting only clean or slightly chopped dollars has had the effect of driving the old mutilated cup-and-saucer-like coins to other ports or into the melting-pot. Notwithstanding all the above peculiarities, the Amoy currency system presents distinct advantages for the trade as compared with the neighbouring coast ports. By adhering to an extinct currency and continuing that as a book or bank unit, the bank is able to keep its unit mostly at par with the Hong-Kong dollar, and quote for its sterling exchange almost invariably the identical figures ruling for the day at Hong-Kong. The Amoy merchant thus obtains in his foreign dealings the benefit of a sterling exchange rate very closely following the price of bar silver, and is freed from the additional uncertainties introduced by varying supply and demand of the local currency, which may amount to a considerable percentage in abnormal times or through artificial 'riggings' of the money market. The Amoy currency system may thus be quoted as an object lesson to show how, under a

heterogeneous and irregular coinage system, a fictitious bank-unit may be resorted to almost unconsciously with great steadying effect, and how easy it is even for a single bank to maintain such a fictitious unit under conditions which are far removed from carrying any force in the nature of legal compulsion. In this direction would seem ultimately to lie a practicable road towards reform and unification for China."<sup>1</sup>

The writer has examined a number of the dollars circulating in China which have come into possession of one of the Eastern banks, and among them were found the following—

Carolus dollar (Charles III and IV of Spain, 1787-1808)			
Peruvian	„		
Bolivian	„		
Chilian	„		
American Trade dollar	.	27.215 grammes	900 fine
Mexican dollar	.	27.072	„ 902-7/9 fine
French piastre	.	27.000	„ 900 fine
British Trade dollar (Hong-Kong)	.	26.957	„ 900 fine
Japanese Yen	.	26.956	„ 900 fine
Indian Rupee	.	.	.

The Provincial dollars issued in China may conveniently be divided into two periods: those issued before the institution of the Republic, and those issued since; and among those which the writer has seen are the following—

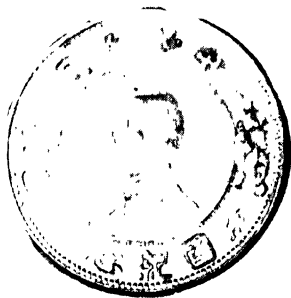
#### ISSUED DURING THE EXISTENCE OF THE CHINESE EMPIRE

Kwantung dollar.	.	.	Issued from the Canton Mint
Hupei dollar	.	.	„ „ Wuchang „
Fuhkien dollar	.	.	„ „ Foochow „
Kiannang (Kiangsu) dollar	.	.	„ „ Nanking „
Chekiang dollar	.	.	„ „ Hangchow „
Fongtien dollar	.	.	„ „ Mukden „
Kirin dollar	.	.	„ „ Kirin „
Szechuan dollar	.	.	„ „ Chentu „
Pei-yang dollar	.	.	„ „ Tientsin „
Taching dollar	.	.	„ „ „ „

The Hupei and Kiannang dollars are considered to be the best of the lot, and are very popular; but the Pei-yang

<sup>1</sup> Vol. IV, Port Trade Statistics and Reports, p. 1086, *Chinese Customs*





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#### DOLLARS CIRCULATING IN CHINA

- (1) Sun Yat Sen Dollar.
- (2) General Li Huang Kwong Dollar.
- (3) Mexican Dollar—1871.
- (4) Mexican Fan Dollar—1895. Heavily chopped by Chinese.

dollar has a wide circulation, and is found in many provinces in North China. The Ta-ching dollar was minted in 1910-11, at the end of the late Ching dynasty, for use pending the resuscitation of silver coinage. It was held by the Chinese to be the "simple" or universal dollar, which was to circulate throughout the whole Empire to replace all Provincial and foreign dollars, and so secure uniformity in the silver currency.

All the Provincial dollars in this list are still in circulation, and have not so far been replaced. As far as their silver content goes, it should be said that they are all supposed to be the equivalent of  $\frac{72}{100}$ ths of a Kuping tael, 900 fine (900 parts silver, 100 copper).

Coming down to the Republican times, it remains to be said that since the establishment of the Chinese Republic, the Provincial Mints are estopped from coining silver on their own account. The right of coinage is now vested in the Central Government. The principal Mint is in Tientsin. The dollars which have been issued recently are mainly of the commemorative type. Three designs have come under the notice of the writer—

1. With a portrait of Dr. Sun Yat Sen, the first President of the Chinese Republic, coined at the Nanking Mint. The one in the illustration is inscribed on the obverse: "Memento—Birth of Republic of China."

2. Bears a portrait of General Li Yuan Hung, formerly Vice-President, now the President. This dollar was coined at the Wuchang Mint.

3. This dollar contains a portrait of the late President Yuan Shih Kai, and was coined at the Tientsin Mint.

We now hear that a new type of dollar, also bearing the President, General Li Yuan Hung's effigy, has been issued from the Tientsin Mint.

This makes four dollars put into circulation since the establishment of the Chinese Republic. They are all the equivalent of  $\frac{72}{100}$ ths of a Kuping tael, and all contain 90 per cent. silver and 10 per cent. copper.

In 1923 the Canton Mint did not coin any dollars, but the Nanking and Hangchow Mints coined a considerable number of "Yuan" dollars. There was, however, a continuous depreciation in the weight and fineness of these coins, particularly in those that emanated from the Hangchow Mint. As a matter of fact the "Yuan" dollar is becoming to an increasing extent the national currency of China, though owing to the debasement of those issued, there is still a good case for the retention of "sycee" currency, to which we shall presently refer. Since the beginning of 1920 China has absorbed over 322 million standard ounces of silver, nearly all of which was used in the coinage of "Yuan" dollars.

We now come to what one might call the real silver currency of China—"Shoe currency"—and here we had better pause for a moment to consider the money which the Chinese call a "tael."

Now, the tael as a coin is purely fictitious—no such coin exists: the tael, or liang (as the Chinese term it), is actually a measure of weight, equivalent to 583.3 gr., but in this strange Oriental land it is used also as a measure of value. The special divisions of the tael for currency purposes are—

10 Cash	= 1 Candareen
10 Candareens	= 1 Mace
10 Mace	= 1 Tael

The Chinese way of expressing them is—

10 Li	= 1 Fen
10 Fen	= 1 Ch'ien
10 Ch'ien	= 1 Liang

Just as there is no tael coin in circulation, neither are there to be found any coins called mace and candareen: they are all measures of weight as well as of value. Nevertheless, the tael, as such, is circulated in bank notes and native orders. Strictly speaking, all that the tael conveys to the native mind is a Chinese ounce of silver of various degrees of purity (its real weight should be  $1\frac{1}{2}$  oz. avoirdupois, say, 37.783 grammes). But there is no fixity even here: the tael of silver differs in fineness, in

weight, and exchangeable value according to the lights of the officials or people of every province, town, or village; it also has to be judged by what is known as "olo custom" (old custom). Every place has its own tael weight, and some of them maintain several standards at the same time; and if, perchance, the tael weight were the same on any given day in any two centres, it would be only a mere coincidence.

In addition to the weight, etc., the changing of silver is a real trial; and, to quote the newspaper previously mentioned,<sup>1</sup> "every little district has its own scale, and every shop in that district differs just a trifle from every other shop in reading the scale. If one weighs out 10 taels of silver at home and then goes to a cash shop to turn it into cash, he will find that he has 9.98 taels in one shop, 9.97 taels in another, and perhaps 9.99 in another, but never quite 10 taels. Even if he has been previously informed that silver is exchanged at 1,500 cash, he will be told that it has dropped to 1,450 cash; and that as his is only 95 per cent. pure, he cannot possibly get more than 95 per cent. of 1,450 cash on 9.98 taels. If, again, he turns round in an hour and tries to buy silver with his cash, he will probably have to pay 1,550 cash for a tael, and will then receive short weight on his silver."

It is evident from this account that the tael, which is supposed to be the Chinese measure of value, is an unknown quantity, and it is, therefore, a little erroneous to say that it performs the function of money.

The tael used in weighing silver is divided into such a multitude of decimal sub-divisions as would frighten any ordinary mathematician: apart from those above mentioned, each of the decimal parts has its own name, even down to the one-thousand-million-millionth part—

1

1,000,000,000,000,000

H. B. Morse, who for many years was a Commissioner

<sup>1</sup> *North China Herald*.

of Customs and Statistical Secretary to the Chinese Customs, reports that seven places of decimals (the ten-millionth part) of a tael are by no means an uncommon sight in Chinese statements of revenue and expenditure.<sup>1</sup> One might almost describe the number of taels in China as legion, seeing that each district has its own ideas on the subject. Few Europeans have been patient enough to collect details of those which have come under their notice, and two authors only give particulars of anything like the distinct varieties seen. A Chinese writer<sup>2</sup> quotes seventy-seven different taels with which he is acquainted; but Morse mentions that he has notes of no less than 170 well-recognised and different currencies, which he gathered mainly from the Treaty Ports and their immediate vicinity. For our purposes, however, it will be sufficient if we take cognisance of four of the principal taels: the Haikwan tael, used chiefly by the Chinese Imperial Maritime Customs Service at all the Treaty Ports purely in a monetary sense; the Kuping, or Treasury, tael, in which practically all Government dues other than the Customs are paid; the Tsao-ping tael, in general use throughout the Provinces and Shanghai; and the Canton tael, noted for being the heaviest tael of all.

The Haikwan tael, in which all duties levied by the Imperial Maritime Customs are calculated, is, theoretically, a tael of pure silver, and is taken to be the equivalent of 1.50 Mexican dollars. The amount of pure silver contained in the Haikwan tael is, however, uncertain; but, on the basis fixed by the British Treaty of 1858, it is reckoned to contain 583.3 gr., and its value—as compared with 100 Kuping taels—98.384 gr. In a monetary sense, 100 Haikwan taels are also taken to equal 111.40 taels (Shanghai currency). Apart from the Customs, however, it is not used for commercial or business transactions and, as we have indicated, is entirely a money of account.

<sup>1</sup> *Trade and Administration of China*, p. 155.

<sup>2</sup> S. R. Wagel.

The equivalent of the Haikwan tael, in which the Customs Revenue and all values are stated, was, during the year 1922, at the average sight exchange on London, New York, Paris, Calcutta, Yokohama, and Hong-Kong respectively, as follows—

<i>English Money.</i>	<i>American Money.</i>	<i>French Money.</i>	<i>Indian Money.</i>	<i>Japanese Money.</i>	<i>Mexican Money. Hong-Kong</i>
<i>s. d.</i> 3 9	Gold \$ 0.83	<i>Francs.</i> 10.23	<i>Rupees.</i> 2.87	<i>Yen.</i> 1.72	\$ 1.49

The Kuping tael is, or rather was, the one in which most Government dues, except those pertaining to the Customs, and those collected in copper cash, were levied in China. Nowadays, however, there is a tendency to make collections in dollars, an instance being the Salt Revenue, which is paid in dollars (\$2.50 and \$2) per 100 catties. Some dues, such as the grain tax, are still payable in kind; but, although the various Provinces continue their allegiance to the old ideas and customs, the tendency at the present time is to commute most of such taxes into cash payments. Compared with the Haikwan tael, the Kuping tael is taken at the following ratio: 100 Haikwan taels = 101.642395 Kuping taels: 100 Kuping taels are the approximate equivalent of 109.60 Shanghai taels.

The Tsao-ping tael is understood to be the one in which exchange rates are quoted by the banks in Shanghai; it is also known as the "Tribute" tael, for the reason that it is the tael basis upon which those Provinces which still contribute their revenue in kind make their calculations. There is some dubiety about the correct weight of this tael: some authorities state it to be approximately 565.65 gr., while others place the weight as high as 565.697 gr. troy; and instances have been noted of its reaching an equivalent of 565.704 gr.

The Canton tael, as its name implies, belongs more

especially to the city of Canton, in the Province of Kwantung. It weighs, or is supposed to weigh, 579·85 gr. troy. One hundred Canton taels are reckoned to be the correct equivalent of 102·5 Tsao-ping taels, but (like most other things in China) it varies; and when it happens to suit the Chinese to do so, they reduce the equivalent to 102·4 taels. The Tsao-ping tael is the one generally used in Shanghai for weighing gold and all silver, except bar silver; for the weighing of bar silver, the Canton tael is adhered to—both in Canton and in Shanghai.

Mention ought also to be made of the Shanghai currency tael, which must not be confused with the Shanghai weight tael (Tsao-ping or Chauping tael). Notwithstanding that it is the weight tael, the banks in Shanghai all acquiesce in the custom of the Chinese banks, which make all their remittances to provincial places in currency based on the Tsao-ping tael. Apart from that, however, Shanghai taels in the ordinary accepted sense of the term mean the "Shanghai Convention Currency," and it is in this latter currency that all operations between the foreign banking and trading community in Shanghai are conducted. The convention currency also forms the international exchange basis for all trade and financial operations of North China and the Yangtsze Basin. The conversion into any one of the local currencies from the Shanghai rate is a somewhat intricate and cumbersome process, but perhaps the following summarised account of the operation will serve to indicate the nature of the problem.

Three elements enter into the conversion or re-conversion of one tael into another: the weight of the various taels; the touch (fineness) of the silver; and, finally, the convention, premium, or "olo custom" (old custom). As an example of the complications which arise from this method of calculation, the *China Year Book* gives the following as the steps to be taken for the conversion of Kuping or Treasury taels into Shanghai taels—

The element of weight is first considered. One hundred

Kuping taels (by weight) are equivalent to 101·80 Tsao-ping taels (by weight). Then, for difference of touch on, say, 2 shoes of silver, one must add  $5·6 : 101·80 + 5·6 = 107·40$ . Finally, "by Shanghai convention, an old custom or understanding, the origin of which is lost in obscurity," 107·40 is now divided by ·98, which gives 109·591. To this must be added, for melting charges, ·008, and the result is the value of 100 Kuping taels quoted in Shanghai taels (i.e. 109·599). At Tientsin, the practice is to add a premium instead of dividing by the "Convention Ratio."

Theoretically, the Haikwan, the Kuping, and the Canton taels are all of pure silver, "though 100 Canton taels pure silver may exchange into 111·05 to 111·20 Shanghai taels" of silver, according to the quantity of white metal tendered for melting.

There is one other tael which we ought to mention: it is even less of a tael than any of the others. We refer to the Kuo-lu tael, which is better known as the Newchwang transfer, or "book-transfer money." Transfer money is really a system of debit and credit carried on by the local merchants at Newchwang through the medium of the Lu Fang. Cash does not actually circulate; in fact, is not required until the quarterly settlement days, when all balances are supposed to be adjusted in silver. If the debtor fails to make a settlement of his indebtedness on the fixed date, the debits are carried over and interest at the rate of 4 per cent. per quarter charged by the creditor.

The transfer tael quotation appears to be fixed by a local official called the Tao-yin, but it does not follow that the rates he settles are adhered to. The risk of having accounts closed and open credits suspended naturally influences the holders of transfers to accept the native bank rates in preference to seeking official assistance in obtaining the published rates, and the value of the transfer at settling dates is a matter of some uncertainty: to a certain extent, it is a question which has to be arranged



between the banks and their clients. In some respects the system works satisfactorily and, apart from the usual abuse, it is one which is soon affected by outside influences. A typical illustration of this is given by the local Commissioner of Chinese Customs in his report for the year 1912. He says—

“The dislocation of the Shanghai money market after the outbreak of the Revolution brought the Transfer tael down with a run. The quotation, which previously stood at something like 74 small coin dollars per shoe of 53½ transfer taels—the imaginary unit on which exchange is based—dropped to 54, and later to 48. No quarterly settlements could be effected, and matters drifted on until the Taotai interfered and ordered the September settlement to be carried through at 65. The effect of this, however, was only to force the rate down still further, the merchants declaring that if they were compelled to settle in cash, they would become bankrupt. The settlement was consequently again postponed until the end of the year, when a compromise between debtors and creditors was arrived at on the following basis: The rate for settlement in Transfer taels up to the end of December was fixed at 61·20 per cent. of all obligations to be paid up to the 26th January, 1913; 30 per cent. on the 8th March; and the balance on the 7th April. Whatever may be the result of these remedial measures, the root of the evil remains: a discredited currency system, which, in its present state, is undermining the credit of the port. Drastic measures may not be desirable if a general financial collapse is to be avoided; but some form of control seems called for, either the institution of an official clearing house or some other check on reckless gambling. It seems to be generally admitted that the system has its advantages; but unless it is provided with certain reasonable safeguards, it becomes vicious and a constant source of danger to *bonâ-fide* trade interests,”

From a consideration of these taels, it will be seen that a transaction in taels implies the use of silver bullion, either in bars or sycee. Sycee is the European pronunciation of the Chinese words "sai ssu" (fine silver). The Chinese term sycee "Yuan Pao," which means the "prime treasure."

Sycee is current in China in the form of ingots or shoes, so called from a fancied resemblance to a Chinese woman's foot. Shoes of sycee are to be found in varying shapes and sizes in practically every province of China; they are very popular in North China, and in Shanghai a considerable quantity is used for trade purposes. Since the form of these shoes can be made according to the whim of any particular person, their weight naturally varies; but, generally speaking, it averages about 50 taels (Tsaoping weight). The average fineness is from 985 to 986, but the sycee circulates at its value in Shanghai currency based upon a standard of 913 for sycee silver.

As far as the writer has been able to ascertain, shoes of sycee were first manufactured during the Yuan dynasty (the thirteenth century). China was then under Mongul rule, and the Mongolians, having brought with them from the West (the Arabian mines and Europe) enormous quantities of silver, caused the metal to be made up into this shape. Sycee has always been very popular among the richer classes in China, who used to store their accumulated wealth in this form on their own premises. It is particularly well known in the Province of Shang-si, where the early Chinese banking or "cash" shops were first instituted. According to authentic Chinese information, there is still a considerable quantity of silver hoarded in this particular province. Generally speaking, the people keep sycee as representing their wealth.

The shoes in the photographs will give the reader a good idea of what this currency is like—they are life-size.

Some of this old sycee has been found containing a small quantity of gold mixed with the silver, sufficient, in fact, to make it profitable to melt the shoes and extract

the gold. Such shoes are now, however, rarely to be found—certainly not in Shanghai—where practically all the shoes on the market are those made from silver imported in the form of bars from Europe and America. The metal in some of the silver shoes is also obtained from melting down the various chopped dollars and other coins circulating in China.

Of the two large shoes in the photographs, the one facing this page weighs 54·95 taels and, taking exchange at the rate in force at the moment 3s. 4d. per tael, its value is £9 3s. 7d., and as an interesting comment on the rise in exchange, we might add that when the previous edition of this book was first published, the value of the shoe in question at the rate of exchange then in force was £8 17s. 3d. It came from the town of Soochow, in the Province of Kiangsu, where it served as currency. The shoe in the frontispiece came to light during the Boxer rising from one of the hoards in Peking or Tienstsin. The blobs, or small balls at the top, seem to have been added at the melting place as a kind of make-weight. It weighs a little over 55 taels, and the value at the exchange current when this edition was issued was £9 3s. 4d. A year or two ago it was worth £15 16s. 3d., the decline in value being due to the depreciation in the gold price of silver. These shoes are representative of six, which the author has examined, no two of which were the same weight. The following were the weights—

53·69	taels
53·86	"
54·95	"
55·20	"
55·39	"
56·53	"

In most provinces are to be found smaller shoes doing currency work. At page 388, between the two large cash pieces will be found one of these small shoes which came from the town of Changsa, in the Province of Hunan: it weighs 10·31 taels. Most of the small shoes weigh in the neighbourhood of 10 taels, but they vary. The five



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SHOE OF CHINESE SYCEE SILVER

Currency of Soochow—Province of Kiangsu.  
Weight 54.95 Tael's

which the author examined weighed respectively: 10·04, 10·25, 10·38, 10·86, and 10·96 taels.

In many centres still smaller pieces are to be found, and these generally weigh about 4 taels—often more, as will be seen from the following weights of the shoes which came from various districts: 4·45, 4·61, 4·96, and 4·99 taels.

Each shoe bears upon it the chop or name of the native smelter, and most of them carry some record of the weight they represent, together with the date of casting. After the bar silver or dollars are melted and cast into shoes, they are examined by a native known as the "Kung Koo," a sort of Chinese shroff or cashier. This worthy fellow is selected by the Chinese bankers, merchants, or dealers in silver to examine and certify the genuineness or otherwise of these shoes, and once he has set his seal or mark on the silver there seems to be no chance of appeal: like the laws of the Medes and Persians, his judgment is final. For his services he receives a small payment of so many cash for each assay of the silver. He generally assays the shoes in a rough kind of way by a touchstone, and the point to which he has to pay attention is the "look see"—that is, the general appearance of the shoe in the way of shape, colour, and lustre. If everything is to his satisfaction, he scribbles in Chinese characters details of the weight, and the premium or "betterness" the shoes bears. This premium is another instance of the difference allowed by "olo custom." The shoe in the first plate bears heavy characters written in some kind of black or purple ink. When all this is done, the shoes are ready to take their place in the market.

As there is a good deal of business in Shanghai in sycee, it may not be uninteresting to indicate the method by which the bullion dealers and bankers arrive at its value in Shanghai currency. We will take the six large shoes above mentioned and see how they work out.

Here, again, three elements have to be considered. First, we take their total weight; to this we must add the

betterness (premium, touch, or fineness marked on the shoe by the Kung Koo, or public valuer) ; then we divide this total weight and premium by .98, allowed by "olo custom" or "Shanghai Convention," which custom permits 98 taels weight to be taken as the equivalent of 100 taels money of account. Bearing these facts in mind, our sum will be—

Total weight of the five shoes	Tsaoping Tls.	329.64
Plus betterness—average, say 2.707 per shoe		13.535
Divide by .98 "convention"	.98)	343.175
		<u>350.17</u>

which shows that the five shoes are the equivalent of 350.17 taels (Shanghai currency). Of course, it might happen that an exact amount of taels currency cannot be arrived at in whole shoes of sycee, and in that case all the Chinese dealer does is to make up the difference by cutting the required weight of silver off one of the shoes. Most of the exchange bankers in Shanghai, however, have found from experience that they may reasonably depend on a result which will give, say,  $916\frac{2}{3}$  Tsao-ping taels weight of pure silver to 1,000 taels Shanghai currency, and are able to base their calculations accordingly.

One is sometimes asked why it is that Sino foreign trade should be so largely carried on through the medium of sycee. It is not a matter of chance, but one of necessity; hitherto sycee has been the only silver currency of which trade could be sure of getting a free supply, and although silver dollars are gradually displacing sycee, yet the dollar currency has to go a long way before it will compete successfully with sycee, which continues to be favoured at the larger Treaty Ports in China. Dollars, as we have shown, have varied greatly in price and are treated more as ordinary commodities than legal tender money. Dollars in use in China are of different kinds; they vary in weight and fineness, and as only comparatively few conform to the legal standard weight, .72 of a Kuping tael, they do

not inspire confidence. It was in 1910 that the Central Government fixed the rate of the dollar at .72 of a Kuping tael, but no particular efforts appear to have been made to enforce the standard.

An Ordinance concerning national currency was, it is true, issued in 1914, and under this law, the Tientsin Central Mint issued the Republican dollar bearing the effigy of Yuan Shih-Kai. During 1914 these dollars were also coined by the mints at Nanking, Canton and Wuchang, and with a view to getting a definite standard, moulds were sent from Tientsin to the provincial mints. The weight of the dollar was fixed at 7 mace and 2 candareens, and its fineness at 90 per cent. Later on the fineness was reduced to 89 per cent. The dollars which have recently come under our notice differ in weight and fineness from each other, and variations are general. These defects naturally militate against the functioning of a definite silver dollar standard in China and until there is uniformity of issue and centralisation of control in the matter of coinage, silver dollars will, of necessity, continue to rank as commodities and not as recognised media of exchange.

This practically concludes our survey of Chinese currency, and all that remain to be explained are the exchange rates, which deserve a separate chapter.

## CHAPTER XXIV

### EXCHANGE DIFFICULTIES IN CHINA : HOW THE RATES ARE CALCULATED—THE BASIS FOR THE QUOTATIONS—CHINESE LOANS—INDEMNITY PAYMENTS

BEFORE dealing with the rates of exchange quoted by the banks, it will be as well to get an idea of how these calculations are arrived at, and here again we get the everlasting silver problem cropping up. The unit of exchange between London and Shanghai is, by common consent, the rate for telegraphic transfers on London, and upon this rate all other rates are based; but the question naturally arises: What is the basis for the telegraphic transfer rate? The reply is—the price of silver! and just how this comes about we will now endeavour to explain.

Bar silver imported into Shanghai is usually of an average touch (or fineness) of .998, that is to say, there must be 998 oz. of pure silver to every 2 oz. of alloy in a bar. This fineness is  $17\frac{1}{2}$  better than the British standard for silver, which is .925 fine, or 925 oz. pure silver to 75 oz. alloy. The  $17\frac{1}{2}$  is called "betterness," and the working is as follows—

$$\begin{array}{rcl} & 240 \text{ dwt. of pure silver} & = 1,000 \text{ fine} \\ \text{less} & 18 & \\ \hline & 222 & = \text{English standard silver, i.e. .925 fine} \end{array}$$

To arrive at the Shanghai standard, we add the betterness and divide by 240—

$$\frac{222 + 17\frac{1}{2}}{240} = \frac{239\frac{1}{2}}{240} = .9979, \text{ or, say, .998}$$

Silver of this fineness is sold at so many taels Shanghai currency per 100 taels Canton weight, and the Canton tael is taken to weigh 579.84 gr. troy. One hundred Canton



taels of pure silver should exchange into 111·05 to 111·20 Shanghai taels, the amount varying according to the quantity of silver sent in to be melted; but taking Shanghai taels 111·20 as the average price for each 100 Canton taels weight and the charges for shipping silver from London to Shanghai, which at present amount to approximately 1 per cent., we may find a constant for day to day use in exchange by working on the following equation—

1 Pence . . . . .	= 1 Shanghai tael
If Shanghai taels 111·20 . . . . .	= 100 Canton taels
If Canton taels 82·7815 . . . . .	= 100 ozs. Troy Silver
If 925 Standard oz. . . . .	= 998 ozs. fine Silver
If 1 oz. . . . .	= $x$ = London Price for Silver
If 100 . . . . .	= 101 (i.e. 1% charges)

$$\frac{100 \times 100 \times 998 \times 101}{111 \cdot 20 \times 82 \cdot 7815 \times 925 \times 100} = 1 \cdot 182$$

The missing factor in this formula is the price of silver on the London market; but, given this, we then have simply to multiply the constant—1·182—by that price in order to find the approximate equivalent for the Shanghai telegraphic transfer. Suppose the price of silver be 36d. per standard ounce— $36 \times 1 \cdot 182 = 42 \cdot 552 = 3s. 6\frac{1}{8}d.$ , which, theoretically, should be the telegraphic transfer rate, Shanghai on London; but, in practice, the exchange quotation may be sometimes below, sometimes above, this parity. The terms “at, above, or below parity” merely refer to the cost at which silver can be bought in London and laid down in Shanghai, and includes all charges for freight, insurance, etc. If exchange is below parity, it favours imports; if above parity, it favours exports. As an illustration of the effect exchange has on Chinese trade, we give the following excerpt from the 1912 Report of the Chinese Customs Commissioner at Kiachow. Writing on the Customs’ figures for that year, he says—

“Both the increase in foreign imports and the decrease in Chinese exports abroad are largely due to the higher value of silver, which ruled steadier than

1915.

1916.

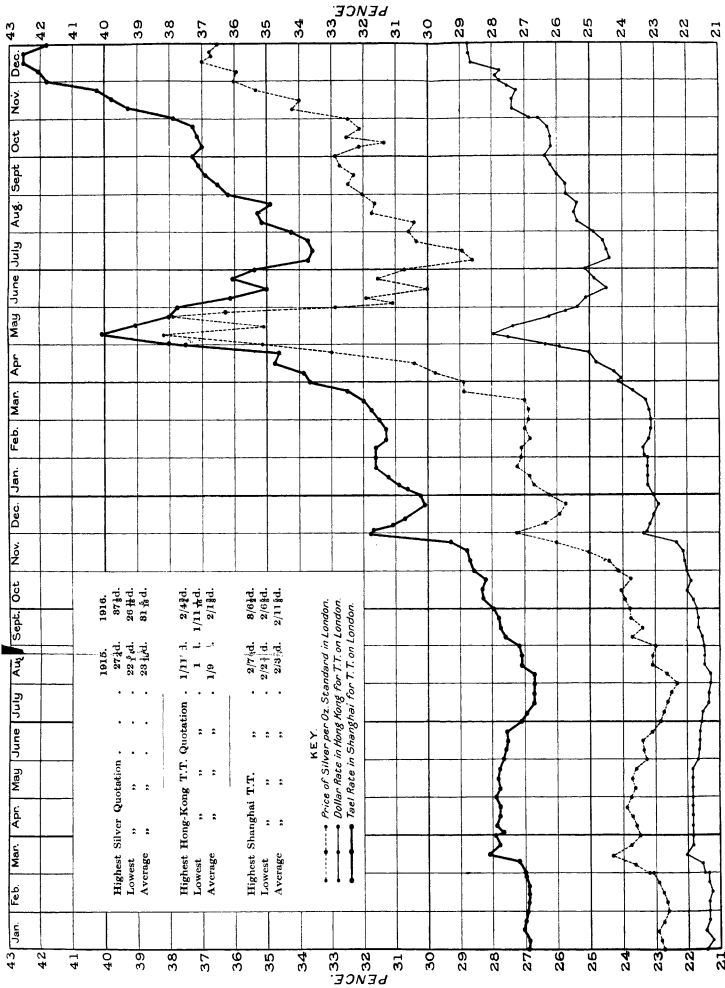


CHART SHOWING THE INTER-CONNECTION BETWEEN THE PRICE OF SILVER ON THE LONDON MARKET AND THE CHINESE EXCHANGE QUOTATIONS

usual throughout the year. The average exchange value of silver was about 12 per cent. higher than the previous year, and by this difference foreign imports became cheaper and Chinese exports to foreign countries dearer."

The margin between the silver parity and the exchange rates as quoted by the banks in Shanghai is dependent upon the price at which a banker can cover his sales of bills or telegraphic transfers. Ordinarily, he can cover his drawings by the remittance to London of mercantile bills of exchange which he has purchased in China or elsewhere; but if for any reason the supply of such remittances runs short, the banker has to resort to silver shipments; and, as we have shown elsewhere, the price of silver forms the limit above which, after adding importing charges, exchange cannot rise and below which, after deducting exporting charges, it cannot fall. Consequently, the Eastern banker will not sell his gold bills on London at a higher exchange (that is, to him, a lower silver price) than he can purchase the same quantity of silver elsewhere, plus the shipping and other incidental charges to China. Conversely, he will not buy mercantile gold bills of exchange at a lower exchange (or higher silver price) than the same quantity of silver would fetch in gold, less the cost of exporting the metal, if sold elsewhere.

In considering the rate of exchange as the equation between gold and silver, we have not overlooked the fact that, generally speaking, a comparatively small amount of silver is employed in the settling of transactions between the various countries: bills of exchange enter quite as much into mercantile transactions with the East as they do with the West, but the principle is that the disturbing effects of demand and supply are more marked. This position in Shanghai has been ably stated by a banker<sup>1</sup> who was for many years resident there, and we cannot do better than summarise his remarks.

<sup>1</sup> Sir Charles Addis.

The point is this: Should the supply of mercantile bills be less than the demand, there will be competition among the exchange banks to buy them, and their silver price in consequence will rise or, to put it another way, exchange will fall. But if the supply exceeds the demand, then merchants will compete with each other for the privilege of selling their paper to the banks and the price will at once fall, that is to say, exchange will rise. In either case (says this authority), the variation cannot pass beyond the limits set by the "Silver specie points," yet within these limits the law of supply and demand has full play. Demand and supply, however, to be effective must be reciprocal. A demand for bank bills implies a corresponding demand for silver which the merchants have to sell. On the other hand, a supply of mercantile bills involves a supply of silver which the banks wish to sell. "From this point of view, demand and supply are convertible terms, and it follows that the rate of exchange will be such as to tend to bring about a state of equilibrium between the two, that is, when the demand for bills at any one time is exactly equal to the quantity supplied. Any other condition is unstable. A rise in price, that is, a fall in exchange, tends to produce a greater supply of mercantile bills and a less demand. A fall in price, that is, a rise in exchange, tends to produce a less supply and a greater demand."

Concerning the reasons for settling rates of exchange in the East, we get the usual explanation: that in the settlement of international indebtedness, it is not necessary for both sides to draw—one may draw, the other remit. In fine, this is precisely what happens with the East: Shanghai draws on London for the cost of China's exports and remits to London for the cost of her imports. But why does she do this? Primarily the reason is said to be that the manufacturer in Great Britain does not care to run the risk of being directly affected by exchange operations; although, indirectly, he can no more escape their evil

effects than other people can. However, we assume that all his expenses are paid in gold, and consequently it is in that metal and that metal alone in which he prefers to deal. That seems to be the explanation why goods shipped to China are usually paid for by telegraphic remittances from China or drawn against on China in sterling, which, of course, comes to the same thing in the end.

The Chinaman is on a different footing. All his expenses are calculated on a silver basis, and it is in silver he must be paid. The difficulty is that his produce has been sold at a gold price, but he can no more afford to wait for a remittance than a Chinese coolie can afford to wait for his wages. A way out of this impasse in the case of the Chinese producer has been found by his drawing on Europe in sterling and settling the rate of exchange in Shanghai with the banker who negotiates his bill, and thus it comes about that the rate of exchange is fixed in the East and not, as one might have expected, in London or other great financial centre. To carry the explanation a little further, let us see what happens in this bill business when rates fluctuate. If the rate of exchange rise and prices of exportable commodities remain the same, then those who have bills to sell will receive so much less for them in terms of silver; and, assuming the rate of profit to have been normal, it will no longer pay them to do business, and in ordinary circumstances we should expect the supply of bills to fall off. For example, say, that the seller of a bill for £105, in the first instance, sells it at 3s. per tael: he receives 700 taels; if, later, the exchange goes up to 3s. 4d., all he would get for the £105 bill would be 630 taels. The reverse effect is seen where exchange has fallen; sellers of bills would receive a greater number of taels, that is, would receive more silver; and the business which we have assumed could only have been done at a loss, is now possible at a good profit, and the supply of bills at once tends to increase. Bills against imports into

China being drawn in currencies other than that of China are not discountable, for the very simple reason that there is no discount market. They, therefore, have to be held until maturity before the banker gets the money. As a matter of fact, the question of money and exchange rates in Shanghai is always rather a puzzling one for people outside China, so to make this business clearer we give a short description of the Shanghai money market, compiled from details sent to the author by a Chinese banker.<sup>1</sup>

There are in Shanghai three classes of bank, all exercising an influence, more or less direct over money and exchange rates, and all very intimately connected with the money market. At the head stand the foreign banks, (European institutions), then we have the Chinese exchange shops, called native banks, and last, the modern Chinese banking institutions. The foreign banks are concerned principally with foreign exchange, and in the financing of imports and exports. The first call on their funds is for the finance of overseas trade; any surplus is then utilised for loans to Chinese bankers and commercial men; the latter are negotiated through the banks' compradores, and the influence on money and exchange rates is only an indirect one.

Prior to the Chinese Revolution of 1911, the Chinese exchange shops were an important factor in the money market. They were in close touch with native merchants in the various trades, and as, generally speaking, they were ready to advance money with or without security, they had a very large following among the native community. Their operations really determined money rates. However, somewhat in the same way as the merchant bankers in England have given place to the larger joint stock banks, so the business of the Chinese exchange shops is being gradually merged in the larger and more up-to-date Chinese banks, of which there are now over 100 in

<sup>1</sup> Mr. Feng Pao Ling, B.A.

existence. Both the modern Chinese banks and the older native banks, however, still meet daily and publish money rates. The former have a Bankers' Association, which meets twice a day and issues rates. These are the recognised rates and are those followed by the market, but the Chinese native banks also publish their quotations, which in turn exercise an influence upon those published by their modern banks.

The quotation for day to day money is given at so much per thousand taels. If the rate be, say, .32, it means that for the loan of 1,000 taels the borrower has to pay  $\frac{32}{100}$  of a tael per day in interest, or 11.42 per cent. per annum. Owing to the absence of elasticity in the currency of China, the market does not function with anything like the ease of the London money market, and rates in Shanghai tend to fluctuate with the rise and fall in the silver reserves maintained by the banks.

Here again, there are really two principal factors which affect the total silver reserve in Shanghai ; one is external, the other internal. The external factor is concerned with the foreign trade of China ; the balance of trade with foreign countries causes silver either to flow into or out of China (Shanghai). If the balance is on the side of exports, imports of silver will take place ; if there be an excess of imports, then silver will be exported from Shanghai. The ultimate effect is either an increase or a decrease of the cash holdings of the foreign banks, and this in turn either strengthens or weakens the money market.

At this point the all-powerful influence of foreign exchange should be noted ; when the rate of exchange is said to be "favourable," foreign buyers have to pay more in gold and hence exports, other things being equal, will tend to fall. At the same time, buyers in China can secure foreign products for less silver, and consequently, imports in the absence of other disturbing factors, will rise. The reverse will be the case when the rate of exchange is said to be "unfavourable,"

We now come to the internal factor, which is no less important. Every year there are certain months in which Shanghai, as a rule, will gain, and others in which it will lose silver against inland cities. In April, May, and June, new stocks of tea and silk are put on the market. When the silk season commences, dealers proceed to Wusih, Isheng, and other neighbouring cities in order to buy silk cocoons. They require a large quantity of silver dollars for this purpose. Consequently, for some weeks in advance they will be buying silver dollars in anticipation of their requirements for silk purchases. It is not unusual for the banks in Shanghai to be called upon to advance to their clients anything up to a total of \$20,000,000 or \$30,000,000. As the result of the demand for silver, the price of the dollar rises, and large quantities of bar silver are sent to the mints at Hankow and Nanking for coinage.

Later, in August, September, and October, large sums are needed to finance the cotton crops in Kiangsu and Chekiang, grain in Hupeh, and bean-cakes in Manchuria, and as the requirements of the cotton, grain and bean-cake merchants are practically coincident, the demands on the banks for accommodation are very heavy, and in a normal season the reserve of the banks in Shanghai again falls, and interest rates are high. The dull months are, as a rule, February, March, July, and November, and money is then usually plentiful.

Apart from all these influences there is a third factor, which is more or less local in its incidence. We refer to the three periodical festivals, viz., the Lunar New Year, the Dragon and the mid-Autumn festivals. They are of importance to Chinese commercial men, for the very simple reason that they are the traditional settlement days.

The foreign banks and business houses, on the other hand, follow European custom, and their balancing periods are in June and December. All cause heavy



demands for money, and result in high interest rates in the Shanghai money market.

We are now in a better position to comprehend the exchange quotations ruling in Shanghai, of which the list given below is a fair specimen—

LONDON.	Bank wire . . . . .	3s./6½d.
	„ demand . . . . .	3s./6-9/16d.
	„ 4 m/s . . . . .	3s./6½d.
	Credit 4 m/s . . . . .	3/7-13/16d.
FRANCE.	Bank demand . . . . .	493
	Documentary 4 m/s . . . . .	508½
NEW YORK.	Bank demand . . . . .	84½
	Credits 4 m/s . . . . .	86½
	Documentary 4 m/s . . . . .	87½
HONG-KONG.	Bank wire . . . . .	70
	Private 3 d/s . . . . .	66
JAPAN.	Bank wire . . . . .	60½
	Private 15d/s . . . . .	59½
INDIA.	Bank wire . . . . .	261½
	Demand . . . . .	262

“London, Bank Wire,” needs little explanation: it is the bank’s selling rate for sterling on London, and means that the buyer has to give 1 tael in Shanghai for every 3s. 6½d. which will be paid by the bank’s London office on receipt of the usual telegram of advice. Telegraphic transfer exchange can also be settled forward, and in forward business, the buyer would always have to pay a little more than he would if he were buying immediate T.T. Generally speaking, there would be a difference in the rate of  $\frac{1}{16}$ d. or  $\frac{1}{8}$ d. for delivery up to, say, three months’ forward. “Demand” is the quotation for bank demand bills. “Bank 4 m/s” means the price for bank bills at four months’ sight, that is to say, payable four months after the bill has been sighted and accepted in London, plus the three days’ grace. The buyer in this case receives considerably more sterling for each tael, and the reason is this. The purchaser of a four months’ bill will expect to get it at a rate which, after allowing for discount (that is, the amount he will be charged if he “melts” the bill or turns it into ready cash in London),

will put him in no worse position than if he had remitted the money by demand bill. The rate for these usance or term bills, as they are called, is thus determined by the rate of interest or discount current in the place *upon which* they are drawn, not in the place of origin. "Credit 4 m/s" is the bank's buying rate for first-class mercantile export bills drawn under credits opened by banks or finance houses of high standing: they are known among the exchange banks as "gold bills." "Documentary 4 m/s" is the rate at which the banks will purchase export bills drawn on London with documents attached. The same principle holds good here; and the rate at which the banks will buy merchants' paper is governed by the rate of discount, plus small incidental charges for stamps, etc., on the place upon which they are drawn. Here, again, forward business is often done. For instance, if a merchant anticipated being able to sell bills against produce shipped to the United Kingdom, he would probably endeavour to settle exchange beforehand and so relieve himself of the exchange risk. Exchange is often settled three months ahead, and can be fixed as far forward as four or five months.

"France, Bank Demand 493," means that the bank will sell a bill drawn on France for 493 francs in exchange for 100 taels local currency paid in Shanghai. "Documentary 4 m/s 508½" is the bank's selling rate for documentary bills, and is the equivalent to 508½ francs for 100 Shanghai taels. "New York, Bank Demand 84¾," means that the bank will sell a bill drawn on the U.S.A. for that amount of American gold dollars payable on demand in exchange for 100 Shanghai taels. "Credits 4 m/s" and "Documentary 4 m/s" are the bank's buying rates for bills drawn under credits and bills with documents attached: the price in each case is given in United States' gold dollars in exchange for 100 Shanghai taels. "Hong-Kong, Bank Wire," is merely our old friend the telegraphic transfer in a different guise—it shows that the

bank, in exchange for 70 Shanghai taels, would order its Hong-Kong branch by telegraph to pay 100 dollars local currency in Hong-Kong. "Private 3 d/s" is the bank's rate for the purchase of bills drawn on Hong-Kong and payable there three days after sight—66 Shanghai currency taels are paid in exchange for 100 Hong-Kong dollars. "Japan, Bank Wire," is also the telegraphic transfer rate for remittances to Japan—the bank sells 100 Japanese yen in exchange for  $60\frac{1}{8}$  Shanghai taels. "Private 15 d/s" is the bank's buying rate for bills at that usance. "India, Bank Wire," shows that  $261\frac{1}{2}$  rupees will be paid in India on receipt of telegraphic advice in exchange for 100 taels paid in Shanghai. The demand rate needs no explanation.

Most of the banks in Shanghai also quote rates for demand bills drawn on Hankow, Peking, Tientsin, and places in Manchuria, Dalny (Dairen), Harbin, etc., the quotations in each case being given in dollars local currency in exchange for taels Shanghai currency.

The only point which deserves to be borne in mind is that in Shanghai, as in many other places in the East, bills drawn D/P, that is, documents on payment, are discriminated against to the extent of about  $\frac{1}{8}$ d. in the rates. For example, if the ordinary D/A bill (i.e. documents on acceptance) is purchased for 3s. 7d. per tael, the D/P bill will be quoted 3s.  $7\frac{1}{8}$ d., which plainly means that the seller has to surrender more sterling for each unit of local currency. The difference the banker gains may be regarded as a slight compensation for the extra risk he takes in purchasing such paper; and, although he can generally discount them on the London market at a price, it not infrequently happens that the bills will have to find a resting-place in his portfolio until such times as it suits the drawee to take them up. While on this question of discounting of bills we mention again that there is no such thing as a discount market in China for bills drawn from Europe. As a matter of fact bills against imports

into China drawn in the currencies of other countries are not discountable.

This chapter would be incomplete without some reference to the loans raised by China on foreign markets, as the repayments of such exercise a very potent influence on exchange. As we have said elsewhere, when loans are issued on the foreign centre, their effect on exchange is the same as an import to the lending country; but when the interest and service of the loans falls due for payment, the effect is the same as if Great Britain, or whoever else it is that has issued the loan, had exported goods to the amount of the interest payment. The influence on the exchange of the lending country is, in the first case, often offset by the borrowing nations' expending a portion of loan funds in the purchase of material from the country which raised the loan; and that is one of the reasons which cause the negotiators of such loans to do their utmost to get clauses incorporated in the loan agreements providing for the expenditure of a certain proportion of the loan proceeds in the purchase of produce and materials of the lending country.

We may summarise these loans under two headings: productive and non-productive loans.

Those under the second category amount to approximately £82,000,000, the principal of which outstanding on 31st December, 1923, was £56,320,717.

Under the heading of productive loans falls the large number of loans raised by China for the purpose of financing the building of railways. The total amount of these loans is approximately £36,240,000, of which there was outstanding on 31st December, 1923, a principal sum amounting to £28,036,574.

The following tables will indicate how the totals for productive and non-productive loans are made up. It should be remembered that the amounts outstanding are being reduced by periodical repayments.

## PRODUCTIVE LOANS

TITLE OF LOANS.	Principal.	Rate %	Term.	Principal Outstanding 31st Dec., '23.
<i>Railways—</i>				
Imperial Railways of North China . . .	£2,300,000	5	1905–1944	£1,207,500
Cheng-Ting Fou-Tai- Yuan-Fou Railway (Shansi Line)	Fcs. 40,000,000 (say £1,600,000)	5	1913–1932	£829,800 (approx.)
Shanghai-Nanking Railway . . .	£2,250,000 £650,000	5	1953	£2,900,000
Kaifeng-Honanfu Railway . . .	Fcs. 25,000,000 Fcs. 16,000,000 (say £1,640,000)	5	1915–1934	£1,099,162 (approx.)
Canton-Kowloon Rail- way . . .	£1,500,000	5	1920–1937	£197,000
Tientsin-Pukow Rail- way . . .	£3,000,000 £2,000,000	5	1919–1938	£3,500,000
Shanghai-Hangchow- Ningpo Railway . .	£1,500,000	5	1919–1938	£1,050,000
Imperial Chinese Gov- ernment Gold Loan of 1908 (for redemp- tion of Peking-Han- kow Railway) . .	£5,000,000	5	1919–1938	£3,750,000
Tientsin-Pukow Rail- way Supplementary Loan . . .	£3,000,000	5	1921–1940	£2,550,000
Imperial Chinese Gov- ernment 5% Railway Loan of 1911 . .	Yen 10,000,000 (say £1,000,000)	5	1911–1936	£802,000
Hukuang Railways (1st Series) . . .	£6,000,000	5	1927–1950	£5,715,340
Lung-Tsing-u-Hai Railway . . .	£4,000,000	5	1923–1952	£3,866,672
Taokow-Tsinghwa Railway . . .	£800,000	5	1916–1935	£569,100
	£36,240,000			£28,036,574

## NON-PRODUCTIVE LOANS

TITLE OF LOANS.	Principal Amount.	Term.	Principal Outstanding 31st Dec. 1923
Chinese Imperial Government 4 % Loan of July, 1895 . . . .	Fcs. 400,000,000 (say, £16,000,000)	1896-1931	£5,628,049
Chinese Imperial Government 5% Gold Loan of 1896 . . . .	£10,000,000 £6,000,000	1897-1932	£6,249,600
Chinese Imperial Government 4½% Gold Loan of 1898 . . . .	£16,000,000	1899-1943	£10,518,325
Chinese Government 5% Gold Loan of 1912 . . . .	£5,000,000	1923-1952	£4,924,743
Chinese Government 5% Reorganisation Loan of 1913 . . . .	£25,000,000	1924-1960	£25,000,000
Chinese Government 5% Gold Loan of 1914 . . . .	Fcs. 100,000,000 (say, £4,000,000)	1930-1964	£4,000,000
	£82,000,000		£56,320,717

Another feature of interest from an exchange point of view is the total amount due to the Powers under the Boxer Indemnities, which in the year they were fixed (1901) amounted to £67,500,000: the principal outstanding on 31st December, 1916, was £62,728,589.

The former amount represents the sum total of all the claims made, national as well as individual: it was taken over by the Governments concerned as a debt from the Chinese Government to the Powers, the claims of individuals being paid forthwith by each Government to its own nationals. The Chinese Government, in the first place, is believed to have handed to the Powers a *bon global* for the total amount of the indemnity, this being subsequently exchanged for fractional bonds issued to

each Power for the amount of its particular claim. These fractional bonds were divided into five series—

(a)	£11,250,000—	repayment beginning	1902	and ending	1940
(b)	£9,000,000	"	"	1911	" 1940
(c)	£22,500,000	"	"	1915	" 1940
(d)	£7,500,000	"	"	1916	" 1940
(e)	£17,250,000	"	"	1932	" 1940

The bonds are released from time to time as payments are made.

The interest on the amounts is 4 per cent. per annum and, as will be seen from the figures, payments are spread over thirty-eight years.

The security for the indemnity payments is the Maritime Customs revenue, and also that of the Salt Gabelle ; the charge ranks in each case after existing liens. The Chinese Maritime customs when the indemnity was fixed was under the control of the late Sir Robert Hart, and they have been under European control ever since. The customs revenues were paid into a British bank as received, and payment of the indemnity instalments was made monthly by transfers to the various countries out of the revenue then available, together with the balance required, if any, which was itself paid to the remitting bank by the Chinese Government from the revenue derived from the Salt Gabelle. In 1913, the Salt Gabelle was reorganised and also placed under European control.

The proportion due to each Power is based on the following percentage—

Austria	.	.	.	.	.	·88976
Belgium	.	.	.	.	.	1·88541
France	.	.	.	.	.	15·75072
Germany	.	.	.	.	.	20·01567
Great Britain	.	.	.	.	.	11·24901
Holland	.	.	.	.	.	·17380
Italy	.	.	.	.	.	5·91489
Japan	.	.	.	.	.	7·73180
Norway and Sweden	.	.	.	.	.	·01396
Portugal	.	.	.	.	.	·02050
Russia	.	.	.	.	.	28·97136
Spain	.	.	.	.	.	·03007
United States	.	.	.	.	.	7·31979
Sundry International	.	.	.	.	.	·03326
						100·00000%

The amount of the indemnity debt payable annually, according to the Peace Protocol signed by the interested Powers and the Chinese Government on 7th September, 1901, is taels 24,483,000—approximately £3,649,200. The actual total due from China under the provisions of Article 6 of the Peace Protocol was taels 450,000,000.

But, presumably as a *quid pro quo* for China's entering the Great War on the side of the Allied Powers on 14th August, 1917, the Powers, with the exception of Russia, agreed, among other things, to the suspension of the whole of the Boxer Indemnity payments for a term of five years. Russia agreed to the suspension of only one-third of her share of the indemnity.

As we have shown, the indemnity payments are due to thirteen nations plus a small sum of international claims. The German and Austrian shares, amounting to about one-fifth of the total, were cancelled as from 1917. Germany, in fact, renounced under Article 128 of the Treaty of Peace between the Allied and Associated Powers and herself, in favour of China any claim to indemnities subsequent to 14th March, 1917. The Dutch, Spanish and Swedish shares are being paid regularly, while the international claims have been entirely cleared off. The deferred amounts belong to eight different nations; they are as follows—

Country.	Amount Outstanding.	Rate of Conversion.	Amount in Sterling.
Great Britain . . .	£ 11,186,547.635	—	£11,186,547.635
U.S.A. . . . .	G. \$ 12,455,507.210	@ @ G. \$0.742 = 3s.	£ 2,517,959.679
France . . . . .	Fr. 391,581,529.051	@ Fr. 3.750 = 3s.	£15,663,261.162
Italy . . . . .	Fr. 147,051,159.764	@ Ditto.	£ 5,882,046.391
Russia . . . . .	Rbl. 254,343,251.978	@ Rbl. 1.412 = 3s.	£27,019,467.278
Japan . . . . .	Y. 72,121,578.409	@ Y. 1.407 = 3s.	£ 7,688,867.634
Belgium . . . . .	Fr. 46,873,522.101	@ Fr. 3.750 = 3s.	£ 1,874,940.884
Portugal . . . . .	£ 20,386.148	—	£ 20,386.148
Total			£71,853,476.811
Total less Russian share			£44,834,009.533

The postponement of payment took place on 1st December, 1917, and the last remittance to the Powers was made



on 30th November, 1917; the postponement ended on 30th November, 1922. In the case of Russia, one-third of her share, equivalent to 10 per cent. of the total due to all countries, was deferred in 1917, but on 1st August, 1920, on the initiative of China, the remaining two-thirds were also suspended, and in 1922, the resumption of payments to Russia was also indefinitely postponed. The American share outstanding does not include the portion remitted by the United States Government to China for educational purposes in 1908, viz., gold dollars 10,785,286.

The rates of conversion were those adopted in the Protocol of 1901. One Haikwan tael was made equivalent to £0.15 (or 3s.) or Fr. 3.75, or U.S. \$0.742, or Yen 1.407, or Roubles 1.412. These rates, when used in converting one foreign currency into another, do not always coincide with the par of exchange between the foreign currencies. The amounts due to be paid after resumption in 1922 were—

Country.	Amount due December, 1922.	Amount due 1923-1936.	Amount due 1937-1945.
Great Britain . . . .	£34,427.314	5,783,788.738	5,368,331.583
U.S.A. . . . .	G. \$ 44,965.730	7,554,242.640	4,856,298.840
France . . . . .	Fr. 1,205,117.237	202,459,678.932	187,916,732.982
Italy . . . . .	Fr. 452,559.324	76,029,966.488	70,568,633.952
Japan . . . . .	Yen. 221,958,758	37,289,071.358	34,610,548.293
Belgium . . . . .	Fr. 144,256.254	24,235,050.714	22,494,215.133
Portugal . . . . .	£ 62.740	10,540.264	9,783.144
Russia. . . . .	Rbl. 290,788.908	123,904,507.664	130,147,955.406

Early in 1923 it was announced in Parliament that the Chinese Government had been informed that Great Britain had in principle agreed to devote her share of the Boxer Indemnity to purposes mutually beneficial to both countries. The British Government does not propose to cancel the British share of the indemnity; China will have to continue to pay the instalments as they fall due, but the money instead of going into the British Exchequer, will be devoted to the education of Chinese students under British auspices. As *The Times* said, such a use of the indemnity is an act of far-seeing statesmanship on the part of the British Government.

## CHAPTER XXV

### The Foreign Trade of China

#### SOME POINTS ON THE FINANCING OF THE TRADE—TRADE STATISTICS—WEIGHTS AND MEASURES

THE foreign trade of China has a curious and, at the same time, an interesting history, and quite a number of nations claim to have been the pioneers in the matter of commerce with the former Empire. The Portuguese, Spaniards, Dutch, British, Russians, and French were all concerned at various early periods in opening up trading relations with the country; and although the Americans were somewhat later in the field, they very soon secured a footing almost as good as that of the other nations. Not that any of them were particularly successful—in the first instance—for the Chinese, by their somewhat high-handed and stone-wall methods, were not over-anxious to encourage trade with the West. However, by dint of perseverance and energy, most of the great nations of the world have opened up trade with China, and, at the present day, every country and State of consequence is taking a share in the business of the Republic. Even now, however, China's foreign trade is on a somewhat peculiar footing, since for the most part it is confined to communication with the Treaty Ports, at which are congregated most of the foreign merchants, who carry on their trade with other places in this strange land—the outports and the interior of China—through the intermediary of a Chinese dealer known as the "comprador." This official's activities are fully described in the next chapter, so all we need say here is that he guarantees or acts as the intermediary for nearly all operations between the natives and the foreign traders.

Foreign trade is mainly carried on *via* the great Chinese *entrepôt*, Shanghai, which in importance as an Eastern commercial centre vies with Hong-Kong, as it is the

channel through which a large amount of goods and produce flows into the interior of China. It is only during the last half-century or so that the foreign trade has shown any great development: as for many years China occupied a position of splendid aloofness, affecting to require little or nothing from the West, and apparently troubling still less whether the exports of her own produce and manufactures went forth to the outer world or not. She, so to speak, hid herself behind almost impenetrable barriers, which made it extremely difficult for European traders and others to do business with her. Since 1860, however, more enlightened counsels have prevailed, and the great wall of seclusion has been broken, or partly, broken down. Trade is carried on under treaty arrangements (most favoured nation's clause, etc.) with the foreign Powers, and at the present time the foreign trade of the country is becoming a matter of deep importance and concern to all the great trading centres of the world. Nevertheless, there still exist hindrances to the greater freedom of trade enjoyed by Western countries.

During 1918 revision of the Customs Import tariff was undertaken. Towards the end of 1917 the Treaty Powers had agreed to have the tariff revised and brought up to an effective 5 per cent., and a Commission composed of Chinese and Foreign delegates assembled at Shanghai early in January, 1918, to consider the details. But, although all the Powers interested had agreed in principle to the raising of the tariff to an effective 5 per cent., no agreement had been reached as to how this principle was to be carried out, or, in other words, as to which years were to be taken as the standard for determining the values of goods and the rates of duties payable. Pending the decision of the Wai-chiao-Pu (Chinese Parliament), the Commission proceeded to draw up a provisional tariff to take immediate effect, and to remain in force until the new tariff became operative. It was found impossible, however, to reconcile the diverse interests and the scheme

fell through. In June, 1918, it seems to have been decided that the values of goods for the years 1912-16 should be taken as a basis, and after many weary discussions the labours of the Commission came to an end in December of that year, and the Revised Tariff, to which they had unanimously agreed, was adopted subject to the approval of the various Governments. The revised import tariff came into force on the 17th January, 1923. In the main, the classification of the new tariff follows that of 1919, though a number of minor re-classifications have been introduced, principally in regard to piece goods, metals, paper, glass, books, wines, and dyes. When the tariff is in proper working order it is estimated that China will derive an increase in Customs Revenue of approximately 8 million Haikwan taels per annum.

As a matter of general interest, we give immediately following a table showing the net value of the total imports and exports for 1913 and 1914, and for the years 1918 to 1922 inclusive. They give a very clear insight into the total value of the foreign trade of the Republic for the years in question. The figures are extracted from the various trade reports of the Chinese Imperial Maritime Customs, and are given in the original Customs taels: this, of course, is the silver value; but to facilitate conversion into sterling a column is added giving the average exchange equivalent of the Haikwan tael for each year.

YEAR.	IMPORTS.	EXPORTS.	AVERAGE VALUE OF THE HAIKWAN TAEI.	
	<i>Haikwan taels.</i>	<i>Haikwan taels.</i>	<i>s.</i>	<i>d.</i>
1913 .	570,162,557	403,305,546	3	0½
1914 .	569,241,382	356,226,629	2	8½
1918 .	554,893,082	485,883,031	5	3⅞
1919 .	646,997,681	630,809,411	6	4
1920 .	762,250,230	541,631,300	6	9½
1921 .	906,122,439	601,255,537	3	11⅞
1922 .	945,049,650	654,891,933	3	9

The participation of Great Britain, her principal Colonies and Dependencies, also that of the United States

and Japan in China's trade will be seen from the following table, extracted from the Report of the Chinese Maritime Customs for 1922. The figures are in thousands of Haikwan taels (000<sup>s</sup> omitted).

COUNTRY.	GROSS IMPORTS.			GROSS EXPORTS.		
	1913.	1921.	1922.	1913.	1921.	1922.
	<i>Haikwan Taels.</i>			<i>Haikwan Taels.</i>		
Great Britain . . .	96,911	149,936	145,293	16,346	30,914	38,508
Hong-Kong . . .	171,636	231,138	239,348	117,129	152,875	169,996
Singapore and Straits Settlements . . .	8,935	8,031	8,169	7,553	19,461	15,314
British India . . .	48,292	35,380	43,140	6,190	9,739	9,817
Canada . . .	1,866	11,808	8,401	652	1,146	1,274
U.S.A. . .	35,427	175,790	169,005	37,659	89,542	97,579
Japan . . .	119,327	210,359	231,429	65,544	172,111	159,754

It should be noted, as the Statistical Secretary of the Chinese Customs points out, that owing to the fluctuations in the average gold value of the Haikwan tael, which in 1913 equalled 3s. 0½d., in 1921 3s. 11⅞d. and in 1922 3s. 9d., an entirely different aspect may be presented by a country's trade relationship with China when the tael values are converted into the currency of the country concerned.

The total trade between the United Kingdom and China for the ten years 1914-22 amounted to—

	1914.	1915.	1916.	1917.	1918.
Imports from China into the U.K. .	£ 4,718,854	£ 7,065,588	£ 8,335,102	£ 8,497,356	£ 9,707,870
Exports to China from the U.K. .	13,104,437	8,547,723	10,707,487	10,624,359	11,832,000

	1919.	1920.	1921.	1922.
Imports from China into the U.K. .	£ 23,052,360	£ 26,898,466	£ 11,269,717	£ 9,723,070
Exports to China from the U.K. .	20,969,747	43,577,342	26,218,760	23,134,102

**EXPORTS** from China fall roughly under three main headings—silk, tea, and sundries—business in the latter being summed up in the jargon of China merchants as the “muck and truck” trade.

The production of silk, as is well known, is China's great forte, and it is the product which figures largest in the exports from the country, the total exports of all kinds during the year 1922, was valued at Haikwan taels 169,259,109. Next in importance to silk comes beans and bean cake, the value of the total export by China in 1922 being Haikwan taels 93,915,259. Japan appears to be China's best customer for bean cake, the United Kingdom's share running into small figures only. Tea has always figured prominently in the exports, the production in 1922 being 576,000 piculs valued at Haikwan taels 16,966,000. Of the cotton, raw and waste, which is exported from China, 80 per cent. or more goes to Japan: the total exports were valued at Haikwan taels 22,861,000.

### **Imports.**

In the list of imports, opium used to figure very prominently; but China, very wisely, is attempting to stamp out the opium evil, and the probability is that in a few years' time all that is imported or produced will be that required for medicinal purposes. Only into the leased territory of Dairen was opium legally imported during 1922, the quantity being 19·80 piculs (1 picul = 133½ lb.). In this commodity a good deal of smuggling goes on, and in 1922 some 68,000 lb. were seized and confiscated by the Customs. Cotton goods imported by China in 1922 were valued at Haikwan taels 218,523,000. In this particular commodity, Great Britain is largely to the fore, and she accounts for nearly 50 per cent. of the imports, the trade in cotton materials being one of great importance to the Manchester piece goods community. The value of woollen goods imported in 1922 was Haikwan taels 8,794,000, a good part of which emanated from England.

There are one or two peculiarities about this piece goods trade which deserve mention. In some cases, shipments are sent as the result of a regular indent business; in others, the goods are forwarded for sale on the open market: but, approximately, half of the total amount imported is disposed of "under the hammer." It has been the custom for many years for a small group of British firms to hold regular weekly auctions in Shanghai, at which their stocks are sold to the highest bidder. It is a curious business, but one which, in the long run, saves a good deal of trouble, as all sales are on a cash basis and settlements made accordingly.

The imports of machinery are interesting, and in this connection a special note, of which the following is a paraphrase, in the Chinese Customs Report for 1922 is important.

The rate of progress at which the metamorphosis of China from an agricultural to an industrial state is taking place may well be gauged from the expansion recorded year by year in the figures of the various kinds of machinery imported into China, principally from America and Great Britain. Although it is not possible to report for 1922, the same phenomenal advance as was registered the year before when the imports of textile machinery alone rose from 6.9 million taels in 1920 to 26.7 millions in 1921, yet the machinery branch of the import trade held its own in 1922. Earlier in the year the demand for machinery was fairly satisfactory, though the demand fell off towards the end of the year, partly owing to the fall in exchange and the unsettled state of the country. In the figures of the import tables it is seen that out of some six items which comprise the machinery group, machinery for textile industries occupies first place, and was valued at 30.5 million taels in 1922 as against 26.7 million taels in 1921. Of the 30.5 million taels' worth of textile machinery imported, taels 15,171,830 worth emanated from Great Britain, taels 6,087,336 from America, taels 6,725,264 from Japan, and taels 1,822,706 from Canada. Agricultural

machinery and propelling machinery fell off considerably in 1922 as compared with the previous year.

The other imports into China call for no special comment ; a few words may be said about the financing of the exports from Great Britain.

China, as far as the trade centre, Shanghai, is concerned, is very well supplied with banks, most of the European countries being represented by large establishments there. Among the more important may be noted: The Chartered Bank of India, Australia, and China; the Hongkong and Shanghai Banking Corporation; the Mercantile Bank of India; the Russo-Asiatic Bank; the Banque de l'Indo-Chine, Banque Belge pour l'Etranger; Netherlands Trading Society. America is represented by the International Banking Corporation; Japan by the Yokohama Specie Bank, the Bank of Taiwan, Ltd., and the Sumitomo Bank.

Shipments are financed from Europe and homewards mainly by four months' sight drafts, although a fair proportion of three months' paper is often negotiated by the banks: six months' bills are also sometimes drawn, but this usance is not generally favoured by the banks. A large proportion of the bills passing through the hands of the bankers are drawn under one or other of the forms of credit issued, the one most commonly used in the trade between the United Kingdom and China being the documentary credit, which, as we have mentioned before, is not viewed by some of the bankers as a credit at all.

As a rule, the documentary credit is opened at the request of an importer, who approaches the bank either here or abroad, according to which side is shipping, and, having acquainted the bank with his desire to open such a credit, he is handed a form to fill up and sign. In this form he states he wishes to open a documentary credit in favour of the foreign exporter, A B of such and such a place, mentions the total sum for which the credit is to be made available, and states whether one or a series of drafts is to be drawn. He also gives a few particulars of



the merchandise to be shipped, and agrees to effect the marine (and war risk) insurance on the goods. In consideration of the bank's agreeing to make advances on the bills which A B may draw on him up to a certain specified amount, he, the importer, engages to accept and pay them at maturity if drawn in accordance with the terms of the credit. Each bill drawn under such a credit is accompanied by a full set of shipping documents, usually invoice, bill of lading, and insurance policy, all duly hypothecated to the bank as security for the due payment of the bills; and by examining these documents of title to the goods, the banker is able to see that the conditions of the credit are complied with.

The point of difference between a bank credit and a documentary credit of this description is worth noting. In the form or notice which is sent to the exporter of the opening of a documentary credit, there is often a clause stating that the credit is not to be considered as a bank credit, and does not relieve the exporter from the liability usually attaching to the drawer of a bill of exchange. The term "documentary credit" would, therefore, appear to be somewhat of a misnomer, and it is probably more correct to regard it—at least from the standpoint of the banker—as an authorisation by the importer to the banker to make certain advances to the exporter on the responsibility of the importer.

Most of the bills in connection with Eastern trade are on an interest basis, that is to say, the bills of exchange contain a clause stating the sterling amount is payable at the bank's drawing rate in the East on London for demand drafts, together with interest at, say, 6 or 7 per cent. per annum added thereto, from the date of the bill to the approximate due date of the arrival of the proceeds in London.

Of course, the shipper, as in the other cases we have mentioned in this book, may elect to send his bills for collection through the bank and wait for the money until

his bills have been paid in the East, the form which the homeward remittance is to take being a matter of arrangement with the banker.

On the East, bills are drawn "documents on acceptance" or "documents on payment." The former call for little comment; once the bill is accepted, the documents of title to the goods are delivered to the acceptor, and the banker's interest in the goods ceases; he has to look to the acceptor for payment of the bill at maturity and, in default of payment, naturally comes back upon the drawer or endorsers, if any.

With a "D.P." bill (documents on payment bill), we get quite a different state of affairs. We will suppose a bill be drawn on an importer for, say, £300, at four months' sight, marked "documents on payment." If, on presentation, the importer is not in a position to pay the bill, he merely accepts it and returns it to the banker. What the banker then does is to warehouse the goods either in his own warehouse (or "go-down," as it is called in the East) or in some neutral storage place, and here they are supposed to remain until the bill is paid. In the East, however, and often elsewhere, it is customary to allow the importer to take delivery of a portion of the goods against part payment of the bill; these partial deliveries continue until he has sold the whole shipment, and when the last portion is taken away, the banker is supposed to have received the total amount due on the bill. The practice might be very simple and satisfactory if only one bill were drawn; but where, as is frequently the case, a number of drafts are running and a large amount of produce is in the hands of the banker, the danger is that the acceptor of the bills may pay for and take delivery of those goods which command a ready market. If allowed to do this, he sometimes retires the bill drawn against the particular consignment of which he wishes to obtain possession; at other times, the proceeds of sales will be placed against the first bill maturing and, as a result, the banker

may finally find himself left with a depreciated and inadequate security, which by no means represents the value of the bills of exchange he has still on his hands. The confusion becomes confusion worse confounded if the respective shipments are not kept strictly separate, as there will be a tendency for partial deliveries to be taken of a number of consignments; and, no matter whether the first or last bill be retired, the bank will eventually be left with a conglomeration of merchandise of doubtful marketable value.

There remains to be mentioned the Trust Receipt system : a trust receipt is simply an undertaking which the acceptor of a " Documents on Payment " bill in a foreign port signs in order to obtain delivery of the goods before he has paid the bill. He recognises the bank's lien on the merchandise, and undertakes to sell it and to pay the proceeds into the bank as soon as received.

In many cases, acceptors of bills are permitted to store the security in their own warehouses or " go-downs," but in some places the banks have their own storage accommodation, which enables them to keep a sharper check on deliveries.

The custom of delivering goods under trust receipt seems to have originated in America, where the law recognises to a far greater extent than elsewhere the bank's property in the goods after they are given up to the acceptor of a D/P bill. As a matter of fact, drawers on this side are often chary of authorising delivery under trust receipt, and not infrequently endeavour to get the banker to take the onus. Banks abroad often do take the responsibility themselves, which means, in effect, that they part with the goods contrary to the instructions of the drawer, to whom they are then, of course, responsible for the ultimate payment of the bill representing the value of the shipment.

### **Chinese Weights and Measures.**

Theoretically, China may be said to follow the decimal

notation in her weights and measures; but, as the reader will have foreseen from a perusal of the preceding pages, the system is in hardly a less chaotic condition than the currency. Reforms are, however, in the air, and ere long we hope a better state of affairs will prevail. A start was made at the end of 1914 by the promulgation of a law having for its object the standardisation of Chinese weights and measures; but, as provision has been made for a double system, it may be some time before the expected improvements take place.

The new law adopts the standard metric unit, and also a native unit based on the Ying tsao ch'ih (builder's foot) for length and the Kuping tael (liang) for weights.

For the purposes of foreign trade, the Chinese Imperial Maritime Customs publish the following weights.

1 tael (liang)	=	583.3 grains	(1½ oz. avoird.)	=	37.783 grammes
16 taels	=	1 catty (chin)	=	1½ lb. avoird.	= 604.53 "
100 catties	=	1 picul (tan)	=	133½ lb. "	= 60.453 kilo-
					grammes = 147.67 Russian lb.
1 picul	=	133½ lb.	piculs	16.80	= 1 ton of 2,240 lb.

For the native retail trade, the weight of the catty has almost as many variations as the tael in currency, the range is from 12 to 42½ oz., and the number of catties to the picul varies from 90 to 280 (according to the custom or usage of any particular Province).

The units of the weights and measures, which are scheduled in the Law of 1914, together with their multiples and sub-multiples, are numerous enough to take up several pages, and many of them are relatively unimportant. The following summarised details, furnished by the *China Year Book*, are—

LENGTH. Unit . ch'ih = .32 metre = 1.049867 feet.

AREA. " . mow = 6,000 sq. ch'ih = .06144 hectare =  
15182 acres

CAPACITY. " . sheng = 10.354688 litres = 10.9416 liquid  
quarts or gallons

WEIGHT. " . liang = 37.301 grammes = 1.31561 avoird. oz.

" The term 'li' is used to express 1/1000 ch'ih (and 1,800 ch'ih), 1/100 mow, and 1/1000 liang."

## WEIGHTS.

10 li	= 1 fên (candareen)
10 fên	= 1 ch'ien (mace)
10 ch'ien	= 1 liang (tael)
16 liang	= 1 chin (kin) or catty
100 chin	= 1 tan or picul

## LENGTH.

10 fên	= 1 ts'un (inch) <sup>c</sup>
10 ts'un	= 1 ch'ih (foot)
10 ch'ih	= 1 chang (pu or kung)
180 chang	= 1 li

The Imperial Maritime Customs have fixed the length of the ch'ih as—

1 ch'ih	= 14.1 inches or 0.358 metres
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"A Li, theoretically 2,115 feet or two-fifths of a mile, is usually taken as a third of a mile, as being nearer the theoretical distance that the word Li conveys to the Chinese mind."<sup>1</sup>

The *Chinese Commercial Guide* gives 100 different values of the ch'ih as actually in use, and it would appear to be a matter of some difficulty to get the natives to adopt any other unit than that to which they have been accustomed, notwithstanding the fact that the new law now provides for the imposition of fines for those who use untested or fraudulent measures. Of the so-called "standard" lengths, the following are those most frequently used—<sup>2</sup>

Carpenter's	ch'ih	= 11.14 inches
Mason's	„	= 11.08 (10.9)
Artisan's	„	= 12.569
Board of Revenue's	„	= 13.181
Tailor's	„	= 13.85—14.05
Junk Builder's	„	= 15.769—15.69

## AREA.

10 ssu	= 1 hao
10 hao	= 1 li
10 li	= 1 fên
10 fên	= 1 mow
100 mow	= 1 ch'ing
25 square ch'ih	= 1 pu or kung
240 pu	= 1 mow
100 mow	= 1 ch'ing

<sup>1</sup> *China Year Book*, 1916, p. 84.

<sup>2</sup> Cf. *China's Business Methods and Policy* (T. R. Jernigan).

## CAPACITY.

1 shao	= 0.01 sheng
1 ko	= 0.1 „
10 ko	= 1 sheng
10 sheng	= 1 tow
10 tow	= 1 shih

On 9th June, 1923, the Chinese Government Bureau of Economic Information, Peking, issued the following details—

**Chinese Currencies, Weights and Measures.**

## I. CURRENCIES

The national currency of China is now the silver dollar, which is 900 fine and contains 23.9775048 grams of pure silver. The design is a portrait of Yuan Shih-Kai, but a new design is being considered.

As fractional parts of the dollar there are the half-dollar, 20-cent and 10-cent pieces, all having the same design and exchangeable at the rate of 2 to 1, 5 to 1, and 10 to 1 for the dollar. But these do not circulate as widely as the dollar itself, because in many parts of the country other kinds of fractional money have long been in use and cannot be displaced by these.

An important form of money is the Haikwan tael, which is used in collecting all customs duties. It is fixed at tael 1 for \$1.50, but is never coined. For all other taxes the dollar is the unit.

Copper money bears no fixed ratio to silver money. The common copper coins are the 10-cash and 20-cash pieces, and they are exchangeable for silver at varying rates, depending upon the quantity of copper coins and copper notes in circulation in the locality.

In some private business silver taels of various kinds are still in use, but their importance is becoming less and less.

## II. WEIGHTS

There are two standard weights recognised by the Government: the French gramme system and the official Chinese ounce.

The latter system is as follows—

1 hao	.	.	.	0.0001 ounce
1 li	.	.	.	0.001 „ or 10 hao
1 fen	.	.	.	0.01 „ or 10 li
1 chien	.	.	.	0.1 „ or 10 fen
1 liang	.	.	.	1 „ or 10 chien
1 chin	.	.	.	16 ounces or 16 liang

One cubic *tsun* (official Chinese inch) of pure water at four degrees Centigrade weighs 0.878475 *liang*.

In private business there are several hundred different kinds of weight in use. Each kind of business uses its own particular weight, and each locality also. There is no general weight in vogue in the whole country for all purposes.

### III. MEASURE

As in weight, there are two systems of measures recognised by the Chinese Government: the metre system and the system of official Chinese *chih-mousheng*.

#### A. Length.

1 hao	.	.	.	0.0001 chih
1 li	.	.	.	0.001 chih or 10 hao
1 fen	.	.	.	0.01 chih or 10 li
1 tsun	.	.	.	0.1 chih or 10 fen
1 chih	.	.	.	the unit inch or 10 tsun
1 pu	.	.	.	5 chih
1 chang	.	.	.	10 chih
1 ying	.	.	.	100 chih
1 li (mile)	.	.	.	1800 chih

#### B. Area.

1 hao	.	0.001 mou (official Chinese acre)
1 li	.	0.01 „ or 10 hao
1 fen	.	0.1 „ or 10 li
1 mou	.	the unit acre or 6000 square chih
1 chin	.	100 mou

#### C. Volume, or Capacity.

1 shou	.	0.01 sheng (official Chinese unit for measure of capacity)
1 ko	.	0.1 sheng or 10 shou
1 sheng	.	the unit or 10 ko or 31.6 cubic <i>tsun</i>
1 tou	.	10 sheng
1 hu	.	50 sheng or 5 tou
1 shih	.	100 sheng or 10 tou

As in the case of weights, there is no single system of measures that is in vogue in China for all purposes, each kind of business and each locality having its own measures.

**Bills of Exchange, etc.**

The rules governing Bills of Exchange (stamping, payment, etc.) are based on the law of the countries concerned and the custom of each settlement—British, French, etc., in Shanghai. For example, a bill drawn in London on China would be stamped in accordance with English law, and the rules regarding protest, dishonour, presentation, etc., would apply: while French laws would be applicable to bills drawn in, say, Paris on Shanghai.

As a matter of fact, the Chinese have a Stamp law, which was passed some time ago; but, so far, it has been totally disregarded, although we hear of attempts being made to bring its provisions into force.



## CHAPTER XXVI

### THE INTERMEDIARY IN EASTERN TRADE, FINANCE, AND BANKING

"EAST is East and West is West, and never the twain shall meet" is an old saying and, like most old sayings, has an element of truth in it: for in one respect at least, East has not yet met West. We use the term in its widest sense—in the sense that, after centuries of trade and commerce, the West is still forced to employ an intermediary in its business relations with the East. Language, customs, and peculiarity of trade have been and are still, to some extent, responsible for this state of affairs. The system to which we refer is known as the Comprador system, and it prevails not only in China, but in Japan, in India, and elsewhere in the Far East. It is the method by which all inter-Chinese, Japanese, or Indian commerce is transacted under the guarantee of a native known as the Comprador in China, the Banto in Japan, and the Banian in India. The word "comprador" comes from the Spanish, meaning "a buyer"—*comprar* = to buy. The comprador, as might be expected, is a man of some standing and affluence in the native community. At one time, we, in England, used to look upon this guarantee broker—for that is what he is after all said and done—as the native to whom junior clerks in the East owed money. As a matter of fact, in the halcyon days of old, men did run up bills with the comprador; but, nowadays, care is taken that clerks do not borrow from him beyond the extent of their salaries. Strictly speaking, it is not a question of borrowing at all: the practice is for Europeans to write across tradesmen's bills—"Comp, A B Bank; please pay C D & Co."; and the obliging comprador settles the bills to the debit of the bank clerk.

The *raison d'être* for the comprador's existence is primarily due to the European ignorance of the native language, but his intimate knowledge of the people and their customs in his own country is of considerable importance. Many prominent Chinese merchants cannot, or will not, speak in any other language than Chinese, and in such circumstances it would be difficult, if not impossible, to do business without the mediation of the comprador.

All the banks in the East employ and make extensive use of the knowledge of the comprador: some people look upon him as a sort of bill-broker—a kind of mediator between the native traders and the banks—who guarantees each operation brought to the bank through his intermediary. As far as bills of exchange are concerned, he does correspond somewhat to our bill-brokers. The London bill-brokers, in selling bills, practically guarantee that they are what they purport to be; it is the same with the comprador. When a bill is brought to the bank the European officials might be able to read the Chinese name on the paper, but they are hardly in a position to know whether it is the outcome of a genuine transaction or not. It is here the comprador steps in: he knows what reliance may be placed on the names on the bill; is well acquainted with the financial standing and probity of the natives concerned; and, fortified with this knowledge, he certifies that the paper is what it purports to be—a first-class bill of exchange—and it is on his signature that the banks negotiate the bill.

The same principles apply in regard to advances, loans, and overdrafts to native clients and dealers; the comprador guarantees all such business, and he it is who is ultimately responsible to the bank.

The comprador's guarantee by itself, of course, would be of little worth unless there were something to back it up. Take China for example: it is the rule for a Chinese comprador to guarantee all financial operations introduced by

natives, but native sureties for the comprador's fidelity are also required and obtained from him; and this second class of guarantors are, in turn, guaranteed by other native sureties. As far as can be ascertained, this method of making one another mutually responsible is handed down from generation to generation; the father's liabilities are binding upon the son, and so on. The system seems akin to that by which the Indians pile up enormous debts for the next generation to liquidate; and, in the case of China, may be said to date from the time the Portuguese and Spaniards entered that country and obtained permission to trade.

With the Chinese comprador, something more tangible than a written guarantee is required. As he constantly undertakes responsibilities and lends his name to large transactions on behalf of the bank he represents, as a further guarantee of his good faith and as additional security for the bank, he deposits approved securities, stocks or shares, or even satisfactory title-deeds of property, and sometimes a certain amount of cash will be placed on deposit in his name, but hypothecated to his employers.

In the banks employing a comprador there are usually two sets of clerks, say, one-half Chinese and the other half Europeans, or half Indian and half European, and so on; each transaction is consequently more or less duplicated. There is a double record of all operations, and two sets of books are always kept: one set in native language; one in English, French, or German, as the case may be. Needless to say, the two classes of accounts are compared daily, or rather the balance is; and, if everything is in order, the separate books must agree. The system naturally varies in different places, but the general rule is that the comprador takes in and pays out hard cash and sycee, and collects the hundred-and-one native orders with which all dealing in the Far East are familiar. The records kept by the European also take count of the cash paid in and

out, and at the close of business the comprador is required to put in the bank's treasury the balance as shown by the books. He has no carry over, but usually has a current account, which he utilises for settling big differences. Even though the foreign cashier keeps separate records, it is the comprador who is nominally responsible for the treasury balance; moreover, it is the latter who is responsible for the genuineness of coin and the standard of silver paid in.

The comprador system, with all the duplication that goes on, is obviously clumsy and expensive: the double staff is, in itself, a heavy item, and then there is the additional office room required; but it is difficult to say how the system is to be obviated. The comprador has come to be regarded as a sort of native departmental manager, and he may receive a fixed salary or commission in proportion to the business done through his intermediary; sometimes he is paid both salary and commission, but it is understood that the tendency at the present time is to dispense with the salary and to pay the comprador according to results. As far as the mercantile community is concerned, the comprador will frequently be found charging his commission for guaranteeing accounts and for selling the goods, too. The advantage to the foreign merchant is that the comprador is supposed to know the buyers, and he it is who assumes all risks, and, as a rule, his guarantee is quite safe; failures are few and far between, but one does occasionally hear of heavy losses incurred through dishonest or speculating compradors.

Europeans find no difficulty in conversing with the compradors, as they all speak pidgin English, and this simplifies dealings to some extent; even when we come to the natives, the language question is not now the insuperable barrier it was in days gone by; but in social intercourse with the Chinese there seems to be an impenetrable barrier, and herein lies the real trouble. The difficulties of the system are well known and appreciated; yet a hundred

years of foreign trade, says Sir Charles Addis,<sup>1</sup> "have failed materially to modify its limitations or to set free the Chinese on the one hand for direct dealings with the foreigner," or, on the other, to remove the restrictions which prevent direct dealings between the foreigners and the Chinese.

Assuming the comprador to be indispensable, then, is there anything we can do to render ourselves less reliant on his operations? The answer is "Yes!" By studying the languages of the countries in which he is employed, we can do something towards surmounting the obstacles. This is a *sine quâ non*, for if we cannot dispense with his services, we can at least ensure that his operations are directed, controlled, and supervised by efficient interpreters. The rudiments of most of the Eastern languages can be acquired in England, and once the ground is broken there is plainly an incentive for the clerk or trader to continue his studies out East until he is sufficiently proficient to grasp the details and exercise a check over the business undertaken by his comprador.

Finally, there is the necessity, the great necessity, for all foreigners to endeavour to break down this wall of seclusion which exists between the Chinese and Europeans: it is gradually being overcome with India and Japan, but with China not much progress has been made. As the language difficulty is not insuperable, an advance can be plainly made in that direction, aided by a firm resolve to learn the customs and the ideas of the people. An eminent Chinaman, Kuang Yung Pao, writing in the *Economic Journal* a few years ago, implied that it is the comprador himself who hinders direct intercourse between foreign and native traders, and he charged the comprador with being an obstacle to any approach to mutual good understanding between the Chinese and foreigners. The comprador, in the absence of any knowledge of the language,

<sup>1</sup> In evidence before Commission on "Organisation of Oriental Studies."

is practically the only key through which each side can learn of the customs and ways of the other; he is the go-between in practically every transaction with native financiers, merchants, and foreign business men; and, as such, this gentleman can always prevent a proper understanding either by colouring his story with a due amount of mystery, or otherwise misrepresenting the truth. That may be so, but we still find him comfortably ensconced in all foreign banks, steamship companies, and mercantile houses: he is also an important personage in almost all the agencies and branches of European manufacturers, and is often found in the smallest commission houses.

The comprador is thus a power in the land with which foreign traders, bankers, and financiers have to contend; to quote one of the China newspapers, we must regard him not only as the axle on which the whole wheel of the foreigner's business with the native turns, but, in many cases, also the hub, the spokes, the rim, and, in fact, the whole wheel, save the paint, which may be taken to represent the firm which gives it the colour of its name.

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